E. C. No. 949

ESTIMATES COMMITTEE
(1980-81)

NINTH REPORT

(SEVENTH LOK SABHA)

MINISTRY OF FINANCE

(DEPARTMENT OF REVENUE)

INCOME-TAX DEPARTMENT

Presented to Lok Sabha on.

LOK SABHA SECRETARIAT
NEW DELHI

April, 1981/Chaitra, 1903 (S)

Price : *Rs. 6.15*

LIST OF AUTHORISED AGENTS FOR THE SALE OF LOK SABHA SECRETARIAT PUBLICATIONS

ANDHRA PRADESH

1. Andhra University General Co-operative Stores Ltd., Waltair (Visakhapatnam).

BIHAR

2. M/s. Crown Book Depot, Upper Bazar, Ranchi (Bihar).

GUJARAT

3. Vijay Stores, Station Road, Anard.

MADHYA PRADESH

4. Modern Book House, Shiv Volas Palace, Indore City.

MAHARASHTRA

5. M/s. Sunderdas Gianchand, 601, Girgaum Road, near Princess Street, Bombay-2.

6. The International Book House Pvt., 9, Ash Lane, Mahatma Gandhi Road, Bombay-1.

7. The International Book Service, Deccan Gymkhana, Poona-4.

8. The Current Book House, Maruti Lane, Raghunath Dadaji Street, Bombay-1.

9. M/s. Usha Book Depot, 585/A, Chira Bazar Khan House, Girgaum Road Bombay-2.

10. M & J Services, Publishers, Representatives Accounts & Law Book Sellers. Bahri Road, Bombay-15.

11. Popular Book Depot, Dr. Bhadkamkar Road, Bombay-400001.

MYSORE

12. M/s. Peoples Book House, Opp. Jaganmohan Palace, Mysore-1.

UTTAR PRADESH

13. Law Book Company, Sardar Patel Marg, Allahabad-1.

14. Law Publishers, Sardar Patel Marg, P.B. No. 77, Allahabad—U.P.

WEST BENGAL

15. Granthaloka, 5/1, Ambica Mookherjee Road, Belgharia, 24-Parganas.

16. W. Newman & Company Ltd., 3, Old Court House Street, Calcutta.

17. Mrs. Manimala, Buys & Sells, 128, Bow Bazar Street, Calcutta-12.

DELHI

18. Jain Book Agency, Connaught Place, New Delhi.

19. M/s. Sat Narain & Sons, 3141, Mohd Ali Bazar, Mori Gate, Delhi.

CONTENTS

ESTIMATES COMMITTEE
(1980-81)

Shri S. B. P. Pattabhi Rama Rao—*Chairman.*

MEMBERS

2. Shri Kumbha Ram Arya
3. Shri Chitta Basu
4. Shri Manoranjan Bhakta
5. Shri Sontosh Mohan Dev
6. Shri Ajitsinh Dabhi
7. Shri Digambar Singh
8. Shri Era Mohan
9. Shri Jitendra Prasad
10. Shri K. T. Kosalram
11. Shri M. M. Lawrence
12. Shri Vilas Muttemwar
13. Shri B. R. Nahata
14. Shri P. Namgyal
15. Shri Balasaheb Vikhe Patil
16. Shri Janardhana Poojary
17. Shri K. Pradhani
18. Shri K. Vijaya Bhaskara Reddy
19. Shri Ajit Kumar Saha
*20. Shri Daya Ram Shakya
21. Shri Nawal Kishore Sharma
22. Dr. Shankar Dayal Sharma
23. Shri Virbhadra Singh
24. Shri R. S. Sparrow
25. Dr. Subramaniam Swamy
26. Shri Tariq Anwar
27. Shri R. L. P. Verma

---

*Elected w.e.f. 12-8-80 *vice* Shri T. R. Shamanna resigned.

28. Shri D. P. Yadav
29. Dr. Golam Yazdani
30. Shri Zainul Basher

SECRETARIAT

Shri H. C. Paranjpe—*Joint Secretary*

Shri K. S. Bhalla—*Chief Financial Committee Officer.*

Shri H. C. Bahl—*Senior Financial Committee Officer.*

INTRODUCTION

I, the Chairman of Estimates Committee having been authorised by the Committee to submit the Report on their behalf, present this Ninth Report on Ministry of Finance (Department of Revenue)—Income Tax Department.

2. The Committee took evidence of the representatives of the Ministry of Finance (Department of Revenue) and the Central Board of Direct Taxes on 3, 5 and 6 January, 1981. The Committee wish to express their thanks to the officers of the Ministry and the Central Board for placing before them the material and information which they desired in connection with the examination of the subject and giving evidence before the Committee.

3. The Committee also wish to express their thanks to Institute of Chartered Accountants of India, the Associated Chambers of Commerce and Industry of India; National Institute of Public Finance and Policy; All India Manufacturers Organisation, The Federation of Indian Chambers of Commerce and Industry for furnishing memoranda to the Committee and also for giving evidence and making valuable suggestions.

4. The Committee also wish to express their thanks to all other institutions, associations, bodies and individuals who furnished memoranda on the subject to the Committee.

5. The report was considered and adopted by the Committee on 1 April, 1981.

6. For facility of reference the recommendations/observations of the Committee have been printed in thick type in the body of the Report. A summary of the recommendations/observations is appended to the Report.

NEW DELHI;
April 6, 1981.
Chaitra 16, 1903 (*Saka*).

S. B. P. PATTABHI RAMA RAO,
Chairman,
Estimates Committee.

CHAPTER I

INTRODUCTORY

A. Introductory

A tax on income was first imposed in India in 1860. The levy remained in force for five years, and was followed by several experiments in direct taxation in the form of income, licence and certificate taxes upto 1886 when Income tax was introduced. It remained in force for 32 years. A new Income Tax Act was enacted in 1918 and it was revised again in 1922. This Act continued with amendments from time to time till 1961, when Income Tax Act, 1961 was passed. This Act as amended from time to time is in force at present.

1.2. The Income Tax was administered through the State Governments till the tax administration was centralised by the 1922 Act.

1.3. The working of the Income Tax Department and the administration of the Income Tax Act have been examined by a number of Commissions and Committees as given below:—

(i) India Taxation Enquiry Committee (1924-25) known as the Todhunter Committee;

(ii) The Income Tax Enquiry Committee (1936) known as the Ayers Committee.

(iii) Income Tax Investigation Commission, (1948).

(iv) Taxation Enquiry Commission (1953-54).

(v) Nicholas Kaldor's "Indian Tax Reform—Report of a Survery", 1956.

(vi) Direct Taxes Administration Enquiry Committee (1958-59) known as the Tyagi Committee.

(vii) The Law Commission (1959-60).

(viii) S. Bhoothalingam's Report on Rationalisation and Simplification of the Tax Structure (1967).

(ix) Administrative Reforms Commission (1968).

(x) H. A. Shah Committee (1969-70).

(xi) Direct Taxes Enquiry Committee (1970-71) known as the Wanchoo Committee.

(xii) Direct Tax Laws Committee (1977-78) known as the Chokshi Committee.

1.4. The working of the Income Tax Department is reviewed from year to year by the Public Accounts Committee of Parliament in the light of Reports of the C & A.G. The Estimates Committee (1959-60) of Second Lok Sabha examined the Organisation of the Department of Revenue (Central Board of Revenue) and presented 45th Report (2nd Lok Sabha) and 23rd Action Taken Report (3rd Lok Sabha) on the subject.

1.5. The Estimates Committee (1979-80) took up the subject of Income Tax Assessment Procedure for examination but they had hardly begun when the Lok Sabha was dissolved in August, 1979. The present Estimates Committee (1980-81) have examined the working of Income Tax Department and given their conclusions and recommendations in this report to bring about simplification and rationalisation of tax administration, curb tax evasion and tone up efficiency of Income Tax Department.

1.6. The Committee feel that if their recommendations and conclusions are taken seriously and implemented in letter and spirit, the tax administration would be streamlined, difficulties of assessees would be considerably removed, tax evasion curbed and the tax revenues would go up.

(Serial No. 1)

Administrative Machinery

1.7. The Central Board of Direct Taxes, a statutory authority constituted under the Central Board of Revenue Act, 1963, functions as a Division of the Ministry of Finance in the Department of Revenue and deals with matters relating to levy and collection of direct taxes. It is the apex body of the Income Tax Department which administer the following laws relating to Direct Taxes:—

(i) Income Tax Act, 1961.

(ii) Estate Duty Act, 1953.

(iii) Wealth Tax Act, 1957.

(iv) Gift-tax Act, 1958.

(v) Companies Profits Sur-tax Act, 1964.

(vi) Interest Tax Act, 1974.

(vii) Compulsory Deposit Scheme (Income-tax Payers) Act, 1974.

(viii) Hotel Receipt Tax Act, 1980.

Income-tax Collections

1.8. The following statement indicates the Income Tax collection targets, actual collections, and variations during the years 1970-71, to 1979-80.

Year	Targets	Actuals (Departmental Figures)	Variations Increase/ Decrease.	Percentage of variation increase/Decrease.
	Rs. in crores	Rs. in crores	Rs. in crores	
1970-71 . .	825.00	839.64 (—)	14.04 (+)	1.77
1971-72	1010.00	1002.57 (—)	7.43 (—)	0.74
1972-73 .	1100.00	1172.78 (+)	72.78 (+)	6.62
1973-74 .	1300.00	1304.53 (+)	4.53 (+)	0.35
1974-75	1460.00	1544.00 (+)	84.00 (+)	5.75
1975-76 .	1820.00	1832.20 (+)	12.28 (+)	0.67
1976-77	2060.00	2071.53 (+)	11.53 (+)	0.56
1977-78	2400.00	2222.77 (—)	177.23 (—)	7.38
1978-79	2620.00	2428.86 (—)	191.14 (—)	7.30
1979-80	2825.00	2732.21 (—)	92.79 (—)	3.28

1.9. From this statement it could be observed that while upto the year 1976-77, the actual collections on account of income-tax used to be more than the targets, during 1977-78, 1978-79 and 1979-80, the actual collections were less than the targets, the shortfall being as high as over 7 per cent in the years 1977-78 and 1978-79. Asked to explain this phenomenon, the Ministry have stated that:—

"According to the existing procedure the Budget Estimates of Income-tax and Corporation Tax are settled in consultation with the Department of Economic Affairs and are depicted in the Budget papers. The C.B.D.T., thereafter fixes the targets of collection among the various Commissioners. In order to ensure that the Budget Estimates

fixed are realised and also that the shortfall in in any Commissioners' charges, is offset by increased collection in other charges, the targets are increased slightly over the estimates. The increased figures termed as "targets" were furnished to the Estimates Committee. While the percentage of shortfall of actuals over the "targets" during 1977-78 and 1978-79 were about 7 per cent, the percentage of shortfall as compared to Budget Estimates are only 4.86 and 5.74 per cent respectively for the two years ....."

1.10. The main reasons for the shortfall in the actuals according to the Ministry are as under:—

(a) A degree of optimism was built into the Budget Estimates.

(b) The business conditions during the year were poor largely because of the unsatisfactory situation on the power front.

(c) Slower growth in industrial production in certain sectors of the industry (3.3 per cent during 1977-78 as against 9.5 per cent during 1976-77).

(d) There were widespread floods and consequent dislocation of economic activity notably in eastern parts of the country where significant proportion of industries are concentrated; and

(e) Poor industrial relations also adversely affected the industrial activities particularly in the corporate sector.

Voluntary Tax Compliance

1.11. The Ministry have informed the Committee that the Central Board have already accepted in principle the concept of encouraging voluntary tax compliance and it is in this context that the Summary Assessment Scheme was introduced. The underlying idea in respect of Summary Assessment Scheme is to accept the bulk of the returns and concentrate on bigger cases involving substantial stakes of revenue. Accordingly, the base of the Summary Assessment Scheme is being enlarged. The cases falling under the Summary Assessment Scheme constituted approximately 65 per cent to 75 per cent of the total workload.

1.12. The Ministry have also stated that the Department receive about 85 per cent of the Revenues through Advance tax, Self assessment and Tax deduction at source the detailed break up of these from the years 1977-78 to 1979-80 is given below:—

	(In Crores of Rupees)		
	1977-78	1978-79	1979-80
1. Total gross collection	2461.53	2707.42	3058.66
Refund .	228.76	278.56	326.45
2. Net collection out of 1. .	2222.77	2428.86	2732.21
3. Advance Tax	1398.76 (56.82)	1538.47 (56.82)	1778.51 (58.15)
4. Self assessment .	248.73 (10.10)	240.73 (8.89)	227.79 (7.45)
5. Tax deduction at source . . .	441.48 (17.94)	528.48 (19.52)	643.15 (21.03)

N.B:—The percentage shown in the brackets represent the percentages to the total gross-collections.

Number of Assessees

1.13. The total number of assessees (including companies) in the books of the Deptt. as on 31st March, 1979 was 39,69,965. The number of assessees status-wise as on 31st March, 1979 were as under:—

	As on 31st March, 1979
Individuals	30,52,482
Hindu undivided families	2,11,036
Firms	6,11,088
Companies	41,532
Others	53,827
TOTAL:	39,69,965

Category-wise number of income-tax paying assessees during the 1978-79 as following:—

	As on 31st March, 1979
(a) Business cases having income over Rs. 25,000.	3,10,642
(b) Business cases having income over Rs. 15,000 but not exceeding Rs. 25,000.	3,28,117
(c) Business cases having income over Rs. 7,500 but not exceeding Rs. 15,000	4,33,067
(d) All other cases (including refund cases) except those mentioned in categories (e) and (f) below	3,82,359
(e) Govt. salary cases and non-Govt. Salary cases below Rs. 18,000.	4,46,653
(f) Summary assessment cases	20,78,127
TOTAL:	39,69,965

Cost of Collection

1.14. The total expenditure incurred by the Income-Tax Department, the total-collection and also the cost of collection in terms of percentage with reference to collection of revenues for the last 10 years beginning from 1970-71 are given below:—

Year	Tax collection Rs. (In crores)	Actual Expenditure Rs. (In crores)	Percentage
1970-71	869·31	19·43	2·24%
1971-72	1044·16	21·44	2·05%
1972-73	1233·07	23·44	1·90%
1973-74	1375·06	27·63	2·01%
1974-75	1653·95	34·68	2·10%
1975-76	2204·93	43·12	1·96%
1976-77	2327·74	43·65	1·88%
1977-78	2405·40	45·08	1·97%
1978-79	2527·15	49·50	1·96%
1979-80	2817·57	51·71	1·83%

B. Arrears of Income-Tax

1.15. The Ministry have informed the Committee that the arrears of income-tax outstanding as on 31st March, 1980 were Rs. 589.66 crores, of which Rs. 419.96 crores were classified as 'recoverable arrears' and the balance Rs. 97.70 crores as 'irrecoverable arrears'. The figures of income-tax arrears as on 31st March of 1978, 1979 and 1980 are given below:—

Arrears as on	Amount in arrears Rs. in crores
31-3-1978	633·53
31-3-1979	554·90
31-3-1980	689·65£

£ Recoverable arrears: 491·95
Irrecoverable arrears: 97·70

Break-up of Arrears

1.16. The following statement regarding gross arrears and not arrears as on 31st March, 1980 shows the break-up of the outstandings, head-wise as also the main factors on account of which the outstanding amounts could not be recovered:—

Particulars	(Amount of demand) (In crores of rupees) 31-3-1980
1	2	3
1. Total demand outstanding at the end of the year	1011.85
2. Amount not fallen due	219.23
3. Amount claimed to have been paid but pending verification/adjustment	8.83
4. Amount stayed/kept in abeyance	
(a) By courts	17.81
(b) Under Section 243F(2) (application to settlement Commission)	11.43
(c) By Tribunal	6.72
(d) By I.T. Authorities due to:—	
(i) Appeals and revisions	103.25
(ii) D.I.T. Claims	3.43
(iii) Restrictions remittances Section 220(7)	1.67

1	2	3
	(iv) Other reasons	13.21
	(v) Total	139.56
	(e) Total of (a)(b), (c) and (d) (v) . . .	175.52
5.	Amounts for which instalments have been granted	18.62
6.	Total [2—3+4(e)=(5)] . . .	422.20
7.	Net arrears (1 minus 6)	589.65
	Classifiction of Net Arrears	
8.	(a) Amount due from companies in liquidaion	
	(i) Pending consideration of write off/scaling down petitions .	0.02
	(ii) Others	6.49
	(iii) Total	8.51
	(b) Amounts due from non-company assessees involved in insolvency proceedings;	
	(i) Pending consideration of scaling down petitions/ write off	1.03
	(ii) Others	0.87
	(iii) Total	1.90
	(c) Total of [(a)(iii) & (b) (iii)]	10.41
9.	(a) Amounts due from assessees who have left India and who have no known assets	3.56
	(b) Amounts due from assessees who are not traceable and/or who have no known assets.	
	(i) Pending consideration of write off/scaling down petitions .	3.27
	(ii) Others	14.87
	(iii) Total	18.14
	(c) Total of (a) & (b)(iii)	21.70
10.	Amounts due from undertakings which have been nationalised or taken over by Govt. where the erstwhile owners do not have, enough assets to pay the tax	
	(i) Pending consideration of scaling down petitions/write off . .	0.45
	(ii) Others	6.61
	(iii) Total	7.06
11.	All other amounts in arrears:	
	(i) Pending consideration of scaling down petitions/write off	14.39
	(ii) Which are not being realised for various reasons of genuine hardships	44.14
	(iii) Balance being the realisable amount	491.95
	(iv) Total	550.48
12.	Total of 8(c), 9(c), 10(ii)(i)&11 (iv)	589.65

1.17. The Ministry have stated that the following administrative steps have been taken recently to recover arrears:—

(i) Action plan indicating targets of collection/reduction of arrear and current demands have been fixed with references to which performance is appraised periodically by the Board through a monthly telegraphic feed-back.

(ii) Arrangements for appointing separate ITOs in difficult cases of recovery are being reviewed and, wherever feasible, strengthened.

(iii) Appellate machinery is being strengthened to liquidate the heavy pendency of appeals in certain Commissioners' Charges.

(iv) Bigger cases of tax recovery are being supervised by senior officers.

(v) The senior officers of the Directorate of Recovery visit various field formations to pursue the recovery process and give specific directions to them for recovery of arrears.

(vi) For the last 7 years, in Action Plans, the highest priority has been given to reduction of arrears and collection of current demand. The target of reduction of arrears demand has been 55 per cent and the target of collection of current demand has been 85—90 per cent.

(vii) Commissioners of Appeals and Tribunals take up high demand Appeals as quickly as possible, Commissioners have called on Chief Justices of High Courts in their respective areas, and requested them that similar cases may be clubbed together and taken up earlier. The Central Board have taken similar steps in respect of Supreme Court.

(viii) Arrears clearance Fortnights are organised when the entire attention of the field formations is focussed on this problem.

1.18. During evidence, the representative of the Central Board informed the Committee that 'the probelm of keeping a watchful eye on the containment and reduction of tax arrears has been uppermost in the mind of the Board for the last several years.... we have constantly endeavoured to contain and we will try our

best. But we cannot promise and nobody can promise that there will be no arrears carried forward. This year (1980-81) our Budget Estimate is Rs. 2941 crores but indications are that we may be able to collect more. Roughly we say Rs. 3,000 crores. Any business which deals with Rs. 3,000 crores is bound to have some accounts receivable. It is a pipeline, some outstanding demand is inevitable in an operation of this magnitude, but we try our best to contain this, minimise this and reduce this."

1.19. The witness further explained that "beginning with 1972-73 we collected Rs. 1100 crores and the percentage of arrears was 66.7 per cent. It has consistently gone down and last year—for the year ending March 1980, we collected Rs. 2730 crores in absolute terms. Of course, the arrears carried forward were larger but the percentage which was 66.7 per cent in 1972-73 has come down to 37.0 per cent. But we can assure the hon'ble Committee that we spare no efforts to contain and reduce as much as possible."

Write-off

1.20. The Ministry have informed the Committee that the Department resort to write-off of tax dues if the tax demands become incapable of recovery due to several reasons, notably the following:—

(i) Absence of assessee;

(ii) Assessees having left India/or not traceable and there are no assets;

(iii) Assessees having died leaving behind no assets or having become insolvent;

(iv) Companies having gone into liquidation; and

(v) Amounts being petty, etc.

The amount of income-tax dues written off during the years 1975-76 to 1979-80, according to the Ministry, was as under:—

	Rs. in crores
1975-76	5·32
1976-77	9.80
1977-78	13.19
1978-79	21.76
1979-80	10.55

1.21. The Committee note that the net Income-tax arreas outstanding as on 31st March of 1978, 1979 & 1980 were Rs. 633.53 crores, Rs. 554.90 crores and Rs. 589.65 crores, respectively. The actual collections fell short of targets by Rs. 77.23 crores in 1977-78, Rs. 191.14 crores in 1978-79 and Rs. 92.79 crores in 1979-80. The cost of collection, however, came down from 1.87 per cent in 1977-78 to 1.85 per cent in 1979-80.

(Sl. No. 1-A)

1.22. The Committee cannot help viewing with concern the heavy shortfalls in actual collections vis-a-vis targets during the three years 1977—1980. The continuing arrears of nearly Rs. 600 crores despite numerous measures to reduce them are also a matter of serious concern. The fact that nearly Rs. 22 crores had to be written off in 1978-79 and over Rs. 10 crores in 1979-80 is a reflection on the Department's efficiency. These statistics which are indexes of the Department's performance lead to the conclusion that measures taken by the Department to realise tax dues have not been effective enough and must be intensified. The Committee would urge the Department to maintain relentless pressure on all fronts to show better results in collecting current demands and reducing arrears.

1.23. The Committee find that more than 85 per cent of the tax is either deducted at source, or paid automatically in advance or on self assessment by the assessees and only about 15 per cent of the gross collection is left to be collected by the direct efforts of the income tax officers. While the Committee do not wish to wholly deny credit to the Income tax machinery for the 85 per cent of the collections which come in automatically, they wish to point out that the area requiring the special attention of the I.T. machinery is not so large that they cannot manage it effectively. The Committee would like the Department to remember that their efficiency would be judged more by collections made on their own efforts than by collections flowing in anyway from year to year under the salutary effect of the penal provisions of Income tax laws.

(Sl. No. 2)

CHAPTER II

ASSESSMENT PROCEDURE

A. Returns

2.1. Every person, if his total income during any previous year exceeded the maximum amount not chargeable to Income-tax, is required to file a return voluntarily in the prescribed form. At present there are five forms of return of income as under:—

(i) Form No. 1—for companies other than those claiming exemption under section 11.

(ii) Form No. 2—for assessees (other than companies and those claiming exemption under section 11) whose total income includes "Profits and gains of business or profession".

(iii) Form No. 2A—for individuals whose total income includes income under the head "Salaries" received from Government, but does not include any income under the heads "Income from house property", or "Capital gains", and who do not have any agricultural income.

(iv) Form No. 3—for assessee (other than companies and those claiming exemption under section 11) whose total income does not include "Profits and gains of business or profession."

(v) Form No. 3A—for assessees including companies claiming exemption under section 11.

2.2. A number of non-official have represented to the Committee that the Income-tax returns are cumbersome and complicated and that it is difficult to fill up the forms without the help of experts. They have suggested that the returns should be simplified in such a way that the first page gives the total income of an assessee under various heads and then statements showing computation of income under relevant heads are appended to it.

2.3. Asked about the comments of the Ministry on the aforesaid suggestions the Ministry stated that "it could, however, be argued that it may not be necessary to burden the assessees with the requirement to go through the parts of the return which are not relevant in

his case. In this view, it may be desirable to have a simplified return of income according to the different heads of income and require the assessee to attach statements showing the computation of income under each head of income separately."

2.4. According to the Ministry each year, as soon as the annual Finance Act is passed, these forms are modified to incorporate the changes made in the Income-tax Act. The Ministry have admitted that "these forms have become rather cumbersome and unweildy so that ordinary assessees who are not well conversant with the provisions of law are sometimes not able to comprehend the annexures and experience difficulties in furnishing the returns of income."

2.5. The Ministry informed the Committee (December, 1980) that in August 1980, the Chairman, Central Board of Direct Taxes had appointed a committee to simplify and retionalise the forms of returns of income. The Committee had proposed to replace some of the existing annexures by statements to be furnished by the assessees in relation to the head of income relevant in their case on the basis of the notes appended to the return of income. The Government had accepted this recommendation.

2.6. The other important changes suggested by this Committee and accepted by the Department were:—

(i) Form No. 2A to be furnished by Government servants who do not have income from the specified sources is being discontinued as a large number of Government servants are found to be having sources of income other than Salaries.

(ii) A number of annexures and statements contained in form Nos. 1, 2, 3 and 3A are being omitted and assessees will be required to show detailed computation of income in the statements to be attached with returns on the basis of exhaustive notes appended to the return of income.

(iii) A column in the return has been provided to show the reasons for delay if any, in filling the return.

(iv) A column in the return to show whether tax payer has applied for extension of time has also been included.

According to the Ministry the actual size of the forms of return of income would be considerably shortened by this process.

2.7. The Finance Secretary informed the Committee during evidence (January, 1981) that "the new form represents an improvement on the existing form. The Chairman, C.B.D.T., when he

presented the form said that any person with an average intelligence should be able to fill it without an expert help. This is the test which he has applied in evolving this form. I hope that his assessment proves correct."

2.8. The Ministry had informed the Committee that no non-official was associated with this Returns Committee. The Finance Secretary conceded during evidence that "in retrospect I wish we had consulted select non-official opinion such as the Chambers of Commerce or professional bodies."

2.9. Elucidating the point, the Chairman, Central Board stated that "after the new forms come into force from 1st April, 1981, we can seek the opinion of various Chambers of Commerce and other representative organisations as to whether any modification is necessary. The modifications proposed by them can be examined and we can make necessary changes in the forms".

2.10. At present there are five forms of income-tax returns for different categories of assessees. A number of non-officials have represented to the Committee that the income-tax return forms are cumbersome and complicated and that it is difficult to fill the forms without experts' help. The Ministry have admitted that the forms are "rather cumbersome and unwieldy". The Committee are informed by the Ministry that a Returns Committee was set up in August, 1980 and that on the basis of the recommendations made by that committee, certain steps have been taken to simplyfy and rationalise the return forms. The actual size of the new returns is also expected to be considerably shortened and according to the Ministry "any person with an average intelligence should be able to fill it without any expert help". The Committee hope that this expectation is realised. The Committee would like the forms of returns to be periodically reviewed and whatever modifications are required to simplify them, should be made periodically. (Sl. No. 3)

2.11. Since non-official opinion was not invited before finalising the new forms the Committee trust that, as assured during evidence, the Ministry will seek the opinion of non-official organisations on these forms and examine the possibility of simplifying the forms still further in the light of non-official views. In fact this should be a continuous process.

(Sl. No. 4)

Distribution of Income Tax Return Forms:

2.12. At present Income Tax Return forms are supplied free of cost by the offices of Income Tax Department at various places.

2.13. The Income Tax Return forms are also made available to the public on sale through selected post offices at a nominal cost of 25 paise.

A number of non-officials brought to the notice of the Committee that the return forms are not often available, particularly in smaller towns. Some representatives also suggested that the return forms should be made available on sale at Banks and similar other places freely.

Commenting on this suggestion, the Ministry stated that no suggestion for distribution of returns through Banks and other places had so far been made but the feasibility of the same could be examined for future.

2.14. The Committee would like the Ministry to ensure that return forms are easily available in all towns and supplied to all those who ask for them. In order to avoid misuse and wastage, the forms may be priced and sold through post offices, banks and other such organisations so as to bring them within the easy reach of assessees in cities or mofussil towns.

(Sl. No. 5)

Arrangements for receiving Returns in the Income-Tax Offices:

2.15. It has been represented to the Committee by non-official organisations that the arrangements made by the Income-tax Department for receiving returns are not adequate. Assessees have to stand for long duration in long queues to hand over the returns. They have suggested that additional counters should be opened towards the closing date for receipt of such returns.

2.16. During evidence the Committee enquired whether any watch was kept on the length of queues of persons waiting for filing returns towards the closing date and whether additional counters were opened as soon as the queues got longer than, say, 20 persons. The Chairman, Central Board replied that "the Inspecting Assistant Commissioners keep a watch; the Commissioner also goes round and finds out how long is the queue. At many places, it is not possible to open a large number of counters because of lack of space and staff also. I can assure you that the convenience of the income-tax payer is definitely borne in mind by us. We do whatever is possible within the constraint of staff and space available. Long queues are not there. When the need arises we open more counters."

2.17. Even though the senior officers of the Income Tax Department keep in mind the convenience of the assessees, open more coun-

ters and keep a watch on the length of queues, the fact remains that as admitted by the Chairman, Central Board of Direct Taxes, at many places they are unable to open a large number of counters for receiving income-tax returns towards the closing date because of lack of space and staff.

2.18. The Committee would like that the Income-tax Department should devise ways and means of overcoming the constraints of staff at least for that period arranging temporary staff and space towards the closing dates so as to open adequate number of counters to receive returns and thus enable the assessees to file their returns conveniently without long wait.

(Sl. No. 6)

'B'—Assessment

(i) *Summary Assessment*

2.19. The Ministry have informed the Committee that with a view to achieving the twin objectives of disposing of a large number of cases and making proper investigation in certain cases, the assessments have been broadly classified into two categories (i) summary assessment and (ii) scrutiny assessment.

Summary Assessment Scheme:

2.20. The assessments are made under section 143(1) of the Income Tax in respect of cases falling under the Summary Assessment Scheme. Under this Section, the Income-tax Officer may without requiring the presence of the assessee or the production of any evidence in support of the return, make an assessment on the total income on the basis of the return itself.

2.21. The Summary Assessment Scheme came into operation w.e.f. 1-4-1971. The Board prescribes from time to time the monetary limits to determine whether the case falls under the summary assessment scheme or not. In July, 1977 it was laid down that the income-tax assessments would be completed under this scheme in respect of all non-company cases where the returned income in the assessment year under consideration or the assessed income in any of the two preceding assessment years is less than Rs. 75,000/- in the case of registered firms and Rs. 50,000/- in other cases. In 1960 these limits have been uniformally raised up to Rs. 1 lakh.

2.22. The Ministry have stated that "one of the objectives of introduction of the summary assessment scheme is to minimise the inconvenience to the assessees and to expedite the disposal of the cases."

2.23. The position of the total workload and pendency of cases falling under the Summary Assessment Scheme during the years 1977-78 to 1979-80, according to the Ministry is:—

Financial Year	Total Workload of Summary assessments			Disposal of Summary assessment			Balance	Percentage to disposal
	Arrear	Current	Total	Out of arrear	Out of Current	Total		
1977-78 . . .	8,87,756	27,62,,578	36,50,334	8,10,093	21,77,834	29,87,927	6,62,407	82
1978-79 .	8,07,428	26,20,768	34,28,196	6,81,140	17,31,023	24,12,163	10,16,031	70
1979-80	11,72,624	26,71,337	38,43,961	9'68,211	16,03,786	25,71,997	12,71,964	67

2.24. According to the Ministry, the reasons for lesser disposal in 1978-79 in comparison to 1977-78 was that under the annual Action Plan for 1978-79, the Income-tax officers were directed to complete assessment of "effective cases" only (cases with income above the taxable limits) and only permissible ineffective cases such as refund cases and the time-barring cases were asked to be disposed of. This was done with a view to concentrating on other areas of work which were given lesser attention in the past.

2.25. Another reason for decline was that during 1978-79 wealth tax assessments for 1974-75 and earlier years were getting time-barred on 31-3-1979 which had to be disposed of.

2.26. According to non-official organisations, the big arrears not only indicated that the summary assessment scheme was not being worked in the spirit in which it was introduced, but also that a large number of summary assessment cases were being treated as scrutiny cases. Some non-officials have stated that with the full and complete returns required to be submitted under sub-Clause (9) of Section 139 w.e.f. 1-9-80 it should be possible to complete all summary assessments before the end of the assessment year.

2.27. The Ministry have stated that the following steps have been taken by the Department to expedite the disposal of Summary Assessment cases:—

(i) In order to ensure that no summary case is wrongly converted into a scrutiny case or *vice versa*, a check list has been devised.

(ii) Powers of assessment have been given to Inspectors in non-company cases, including salary cases where the returned/finally assessed income for the assessment year concerned and the immediately two preceding years is Rs. 25,000 or less.

(iii) As a result of the amendment, to section 143(1) made by Finance Act (No. 2) 1980, the I.T.O. is no longer required to make any adjustments to the returned income filed by the assessee. This would quicken the pace of disposal.

(iv) If certain legal requirements like appending profit and loss accounts, balance sheet etc. to the return are not complied with, the Income-tax Officer may declare the return

to be invalid if the defects are not removed within the time allowed.

2.28. The Chairman, CBDT, stated during evidence that these measures "will go a long way in achieving the objectives of diverting man-power from summary assessments to more detailed scrutiny assessments and at the same time expediting the disposal of summary assessments disposal." He added that the Board had recently drawn up a long-term plan for disposal of summary assessments and had decided that at least 90 per cent of such cases would be disposed of by 31st March, 1984 and the pendency of summary assessment cases would be reduced to 10 per cent of the workload." The Chairman, Central Board, added that "this would mean that we may need extra officers for this purpose. The whole thing is under study and as and when the study is over we will put up our proposals."

2.29. According to the Ministry, "even where a case is completed under the Summary Assessment Scheme, preparation of assessment forms and tax calculation sheets etc. also require considerable time. Due to the constraints of the manpower available, it is not possible to dispose of all the cases falling under the Summary Assessment Scheme during the year itself."

2.30. When during evidence attention of the Chairman, CBDT, was invited to the reports that even in Summary Assessment Cases, ITOs were calling the assessees to their offices for a hearing the Chairman, stated that it is "not only undesirable but also illegal if while making a Summary Assessment under Section 143(1), the (ITO) calls an assessee to the Income-tax office". He however added that "out of summary assessments, a certain percentage of cases come up for sample scrutiny. If in a particular case of summary assessment an assessee has been called to the Income-tax office, if his account books have been examined, it is because it has been taken for a sample scrutiny."

Sample Scrutiny Cases under Summary Assessment Scheme

2.31. According to the Ministry of Finance, selective scrutiny of cases completed under summary assessment scheme is to be done on random sampling basis and this selection is to be made in the month

of August every year and these cases are required to be entered in the sample scrutiny register also for follow up action.

2.32. The number of cases selected for sample scruting are as follows:—

2 per cent of the total cases of having assessment income upto Rs. 25,000.

10 per cent of the cases having assessed income between Rs. 25,000 to 50,000.

20 per cent of the cases having assessed income above Rs. 50,000.

2.33. At the instance of the Committee, the Ministry have furnished the following information regarding disposal of Summary Assessment cases taken up for sample scrutiny as at the end of July, 1980.

(i) Number of cases of sample scrutiny brought forward as on Ist April, 1980	62,257
(ii) Number of cases selected for sample scrutiny during the year upto Jul, 1980	37,724
(iii) Total number of cases available for sample scrutiny	99,981
(iv) Disposal out of Col. (iii) upto July 1980	9,556

2.34. During evidence the Committee pointed out that during the first 4 months of 1980-81, the Deptt. had disposed of 9556 cases, and at this rate their annual disposal (1980-81) would be approximately 30,000 cases. Even assuming that no more cases for sample scrutiny would be taken up this year (which was not correct), at the present rate of disposal, it would take the Department three years to dispose of the cases as pending at the end of July, 1980.

2.35. The Chairman, CBDT, admitted during evidence that sample scrutiny of cases selected from out of the summary Assessment cases "are not being scrutinised adequately and also expeditiously." He added that in order to expedite matters, it had been decided that during 1981-82, the ITOs should give the highest priority for the disposal of cases selected for sample scrutiny including the pending cases and these should be completed during that financial year itself. Previously these scrutiny cases were mixed up with other scrutiny cases and they were disposed of in normal manner.

The Chairman CBDT further stated that the mechanism of feed-back had also been improved. Earlier in the monthly progress reports, there was no separate column to show the number of cases selected for random scrutiny and the number of cases disposed of. The monthly progress reports had been revised to get this information to enable the supervisory authority to keep an eye on progress. In this manner the supervisory officers would be able to keep a better watch than what they had been doing in the past.

2.36. In reply to a question the Ministry had stated that information as to the number of random scrutiny cases in which concealments were detected was not available with them. During the course of evidence, the Committee enquired whether in the absence of this information, the Ministry could say that the Summary Assessment Scheme did not give scope for tax evasion as had been alleged in some press reports. The Chairman, Central Board replied (January, 1981) that "we have not prescribed instructions on this to show the number of concealment cases detected through the sample scrutiny. We will consider the suggestion." The Finance Secretary also admitted that "the point is well taken that he need for monitoring of the scrutiny assessment is absolutely essential. It can be done at the level of the Commissioners with a second look also by the Central Board of Direct Taxes."

2.37. Subsequently the Ministry informed the Committee (January, 1981) that "a study is currently being undertaken by the Inspection Division of the Board of Delhi charges regarding the number of scrutiny, the amount of addition made and the number of penalties for concealment initiated."

2.38. With a view to minimising inconvenience to the assessees and to expediting the disposal of assessment cases, the Income tax Department had introduced, with effect from 1971, a Summary Assessment Scheme under Section 143(1) of the Income Tax Act. Under the Summary Assessment Scheme, an Income-tax Officer is required to finalise the assessment without calling the assessee to his office. The Income-tax assessments in respect of non-company cases where the returned income in the relevant assessment year is upto one lakh, are now covered by the summary assessment scheme.

2.39. The Committee note that the Department disposed of 82 per cent (29,87,927 cases) of the summary assessment cases during 1977-78, 70 per cent (24,12,165 cases) during 1978-79 and 67 per cent (25,71,997 cases) during 1979-80 and left a backlog of 6.62 lakh cases at the end of March, 1978, 10.16 lakhs at the end of March, 1979 and 12.72 lakhs at the end of March, 1980. Seeing the declining rate of disposal of cases and growing arrears under the Summary Assessment Scheme, the Committee cannot but conclude that the objective of expediting the assessment has not been achieved so far.

2.40. The Committee are informed that the Income-tax Department have now taken certain steps like empowering the inspectors to finalise assessments in certain cases and giving powers to ITOs to finalise assessments under this scheme without making adjustments and treating incomplete returns as invalid after a prescribed period of notice. But even then, the Department have stated that due to the constraints of man-power available, it is not possible to dispose of all the cases falling under the summary assessment scheme during the year itself. The Department have drawn up a plan for disposal of atleast 90 per cent of the summary assessment cases by the end of March, 1984 and reduce the pendency of such cases to 10 per cent of the workload by that date. For carrying out this plan, the Department would need extra officers for which a study is stated to be under way.

2.41. While the Committee welcome the plan drawn up by the Department to reduce the pendency of summary assessment cases to 10 per cent by the end of March, 1984, the Committee feel that the Department should be so geared as to dispose of all the summary assessment cases pertaining to a year during the same year and the Department should start drawing up plans, and taking necessary measures to achieve this target at the earliest. Only then can the objective of Summary Assessment Scheme be said to have been really fulfilled.

(Sl. No. 7)

2.42. The Committee note that it is illegal for an ITO to call an assessee to his office for disposing of a summary assessment case. From certain reports reaching the Committee it appeared that even in summary assessment cases, assessees had been called by the ITOs to their office for hearing. The Committee would like the Depart-

ment to keep an eye on the manner of functioning of ITOs and see that except in sample scrutiny duly selected for the purpose, assessees are not summoned to appear before the ITOs and the latter dispose of such cases on the basis of the returns alone in consonance with the purpose of the scheme.

(Sl. No. 8)

.. 2.43. The Committee note that selective scrutiny of cases falling under summary assessment scheme is done on random sampling basis according to a prescribed formula. The Committee find that there were 99,981 sample scrutiny cases pending with the Department as at the end of July, 1980. The Department had disposed of 9556 cases during the first four months of 1980-81. This obviously was a very slow rate of disposal of sample scrutiny cases and if the disposal proceeds at this rate, it would take the Department nearly three years to dispose of even those cases which were pending at the end of July, 1980. The Chairman, CBDT admitted during evidence that the sample scrutiny cases were not being disposed of expeditiously. The Committee note that the Department have decided that during 1981-82 the ITOs should give the highest priority for the disposal of cases selected for sample scrutiny including the pending cases and these should be completed during that financial year itself. The Committee feel that this should have been the approach right from the beginning. They would like the Department to ensure that Summary Assessment cases selected for sample scrutiny during a year are disposed of during the same year itself.

2.44. In order to keep a watch over the rate of disposal of sample scrutiny cases, the Department is stated to have improved the feedback system. The monthly progress reports which earlier did not show the number of cases selected for sample scrutiny and the number of such cases disposed of, have now been revised to get this information so as to enable the supervisory authorities to keep an eye on the progress of disposals. The Committee would like strict monitoring of the pace of disposal of sample scrutiny cases so that any slackening of pace of disposal is detected at the earliest and remedial measures taken promptly to see that the target of disposal of all such cases during the year itself is achieved. (Sl. No. 9).

2.45. The Committee regret to note that the Department are at present not collecting information about concealment of income detected in the course of scrutiny of sample cases falling under the summary assessment scheme. In the absence of this information, it is not possible to judge whether and if so, to what extent, tax evasion is being attempted under the summary assessment scheme. The Committee would like that, as assured by the Finance Secretary during evidence, information about concealment of income detected while disposing of sample scrutiny cases should be collected and collated regularly and analysed at the highest level to evaluate the success and loopholes of summary assessment scheme with a view to taking remedial measures in the light of the evaluation.

(Sl. No. 10)

(ii) *Scrutiny Assessment*:

2.46. Scrutiny assessments are made under Section 143(2). For the purpose of making an assessment under this provision, an Income-tax Officer may serve a notice on an assessee requiring him, on a date to be specified therein, to produce or cause to be produced, such accounts or documents as the Income-tax Officer may require.

2.47. If as a result of additions proposed to be made there is a variation of Rs. 1 lakh or more in the returned income, the draft assessment order is referred to the assessee and the matter is referred to the IAC along with assessee's objections u/s 144B. The IAC after considering the matter issues directions to the ITO and the assessment is completed in accordance with IAC's directions.

Scrutiny and Personal Hearings:

2.48. With regard to scrutiny of returns and personal hearings fixed by ITO's a number of non-officials/organisations have brought the following to the notice of the Committee:—

(i) The ITOs have a tendency to call assessees for personal hearing even when they have not scrutinised the returns

and are not ready for a hearing. Notices for hearing should be issued only after the ITOs have scrutinised the returns and listed the points on which they would like to have additional information from the assessees.

(ii) As far as possible, there should be common hearing for income-tax and wealth-tax cases of the same assessee.

2.49. Accepting suggestion at (i) above, the Ministry have stated that:—

(i) "The Board have recently also issued instructions on 18-11-1980 impressing upon the Income-tax Officers to avoid indiscriminate and mechanical issue of notices without acquainting themselves in advance as to the nature of their requirements. It has been stated in the instructions that where the case is to be fixed for hearing it will be advisable to either issue notice under section 142(1) which requires production of certain documents or books or notice under section 143(3) specifying the point on which the clarification is needed. Issue of notice under section 143(2) which requires the assessee to produce evidence in support his return, should not be done mechanically, and the ITO should be well award of the points on which he desires the assessee to produce evidence before issue of such notice. The Commissioner(s) of Income-tax and Inspecting Assistant Commissioners have been asked to pull-up the Income-tax Officers who are in the habit of issuing notices mechanically."

2.50. As regards the suggestion at (ii) above the Ministry have stated that:

(ii) "the Board vide their Circular dt. 15th November, 1973 have directed the Income-tax Officers that income tax and corresponding assessments in other Direct Taxes laws relating to the same assessee should, as far as possible, be

taken up and completed simultaneously. Where such simultaneous action is not possible assessment under one Direct Tax law should be completed only after perusing the assessee's records maintained under other Direct Tax laws, with a view to taking notes about the situations which may necessitate consequential action in the assessment under completion."

Adhering to dates of Hearings fixed by ITOs

2.51. A large number of non-officials have represented to the Committee that very often hearings/appointments fixed by ITOs are not kept by them either because files are not available or because they have to go away on search work rear called away by their superiors etc. etc.

2.52. Asked about their comments the Ministry have stated that:—

"So far as the sudden engagement of the ITO on duties in connection with the search is concerned and consequential dislocation of his daily schedule is concerned very little can be done in the very nature of things as advance information cannot be given. However, the Income-tax Officers have been advised by Board in March, 1973 that the assessing Officer should, unless for compelling reasons, not adjourn cases on their own."

2.53. During evidence the Committee questioned whether it was proper for an ITO to summon an assessee and then to send him back unheard/unattended on one plea or the other. The representative of the Central Board replied that "it is certainly not correct. I quite agree that once the assessee comes to the officers he should be heard and should not be sent back unheard." He added that due to some compelling reasons like the ITO having to given search work, he having been called by higher authorities/appellate authorities, he

having to proceed on leave, the hearing may not be held. He, however, agreed that:

> "It is good if we are able to inform the taxpayer in advance on telephone wherever possible. We thing that this information should be displayed on the notice board outside the ITO's room. It should also be put up on the general notice board of the Income-tax office. By this the assessee will be able to know that his case would not be taken up."

2.54. The witness also agreed to consider the suggestion made by the Committee that the ITO's engagement diary should be soon by his higher authorities for randum checks in this regard.

2.55. Some leading chambers have suggested to the Committee that ITOs should be asked to record the dates of personal hearings in the assessment orders. This, they felt, would have a salutory effect in as much as an ITO would apply his mind before calling and assessee for personal hearing.

2.56. In this regard the Ministry have stated that the order sheet which is required to be maintained for each assessment record for each year gives the chronological picture of the various dates of hearings and adjournments and the developments in a particular case. It is open to inspection by the higher authorities and if unnecessary hearings and adjournments are allowed an adverse note is to be taken of the same.

2.57. During evidence when the Committee desired to know the difficulty in mentioning the dates of hearing in the assessment orders, the representative of Central Board stated that:

> "Even according to the existing practice the Income Tax Officers when they pass an order give the dates of hearing in the Assessment Order itself. But this practice is not uniform and we are accepting the suggestion of the hon'ble Committee and we would new change the format of the Assessment Order so that these dates are clearly indicated on the top in the Assessment Order, on the same lines as is being done in the case of the Appellate Assistant Commissioners who have to give the dates also."

2.58. The Committee are glad to note that after the Ministry's attention was drawn to the reported tendency of ITOs to call assessees for personal hearing even before scrutinising their returns,

the Central Board of Direct Taxes have issued instructions impressing upon the ITOs to avoid indiscriminate and mechanical issue of notices without acquainting themselves in advance as to the nature of their requirements and to specify in the notices the documents required to be produced and the points on which clarification is needed before fixing the case for hearing. The Committee feel that if harassment to assessees has to be avoided, Commissioners of Income-tax should keep a vigilant eye on the ITOs to ensure that these instructions are followed in actual practice and disregard shown by the ITO in this respect is viewed seriously. (Sl. No. 11)

2.59. The Committee feel that it amounts to harassment of the assessees and projects a bad image of the Department if appointments for hearings fixed by ITOs are not honoured and adhered to, no matter what the reasons may be. The Committee are glad to note that the Central Board have appreciated the feelings of the assessees and have agreed that it should be possible for the ITOs to inform the assessees in advance over telephone, wherever possible, about the last minute cancellation of hearings. The Committee expect that the Central Board will issue suitable instructions to the Commissioners and ITOs asking them to hold the hearings fixed by them on schedule and if due to certain unavoidable circumstances a hearing cannot be held on the appointed day, the assessee should be informed in advance either through a letter or over telephone to a responsible person in the assessee's house wherever possible. The information about the cancelled or adjourned hearings should also be displayed in the notice board outside the office of the ITO concerned and on the general notice board of the Department for the benefit of the assessees who may happen to come to the Department unaware of the cancellation of the hearing. (Sl. No. 12)

2.60. The Committee are glad that the Central Board of Direct Taxes have seen it fit to agree to amend the format of the assessment order so as to provide that the dates of hearings held in connection with an assessment are indicated in the Assessment order. This would have a salutory effect and restrain an ITO from calling an assassee unnecessarily for personal hearing. (Sl. No 13)

Issue of Notices

2.61. During their tour it was brought to the Committee's notice that assessees were having same difficulty in receiving notices and assessment orders. The non-officials suggested that the assessment orders and notices should be sent by registered post. They felt that the notices would then be received by the assessees without any delay and that they would not have to depend on the mercy of

notice servers. The Ministry considered the system of registered post "very expensive" and they thought it was difficult to keep track of the return of acknowledgement slips. According to the Ministry serving of letters and notices through notice servers was the most economical and administratively feasible method.

2.62. During evidence the Committee pointed out that what the Ministry considered "most economical and administratively feasible method" was not serving the purpose so far as the assessees were concerned, who experienced difficulties in receiving notices through the system of messengers.

2.63. The representative of the Central Board replied that:—

(i) At present the department have 2910 notice servers. As per Staff Inspection Unit norms, another 3028 notice servers are required.

(ii) The number of notices which have to be served during a year is of the order of 218 lakhs and if they are all to be sent by registered post ask due, on an average it would cost the Department about Rs. 6.5 crores. The total bill in respect of the notice servers numbering 2910 comes to about Rs. 145 lakhs considering that a notice-server is paid Rs. 500 on an average. Even if 3000 more notice servers are added the bill will come to about Rs. 3 crores. Even then it will be far less than the expenditure which will have to be incurred if all the notice were to be sent by Registered Post.

(iii) Sending notice by post will cause administrative problems also. The Department may have to enter interlong, pretracted correspondence with the Post Offices to find out when the notice was served. This will seriously hamper assessment work.

(iv) Refund vouchers being a sensitive area, are being sent by registered post (from Oct., 1979).

2.64. In this regard, the Finance Secretary stated that "in fact it was on the administrative grounds rather than on grounds of relative economics of the two systems that the Department was inclined to favour the continuance of the existing system of notice servers. We do not mind otherwise spending a little more money if that would result in greater convenience to the assessees. We must also look at it from the point of view of the department namely whether the recourse to transmission of notices etc. by registered post will increase the area of litigation of the department with what may be

called, somewhat non-cooperative asessees. Perhaps they are delaying the consideration of their cases. Of course there are some genuine bonafide assessees complaining that we could not serve the notice in time because of the misbehaviour of the notice-server."

2.65. The Finance Secretary however agreed to a suggestion by the Committee that before changing over completely, system of serving of notices by registered post might be tried on an experimental basis in selected areas.

2.66. The Committee have been informed that the present system of serving Assessment orders and notices through notice servers caused difficulties to assessees who it is stated would prefer the notices and assessment orders to be sent by registered post. According to the Ministry, the present system is most economical and the service of notices through registered post was likely to create administrative problems and hamper assessment work. The Committee do not see any justification in continuing a system in which the assessees have no faith and which creates difficulties for them. The Committee would like that, as agreed to by Finance Secretary, the system of service of Income-tax notices and orders by registered post should be tried in a judicious and economical manner on an experimental basis in selected areas and progressively extended to other areas.

(Sl. No. 14)

Assessment cases falling under Section 273A

2.67. A leading Chamber of Commerce represented to the Committee that the Commissioners did not act independently in the petitions made by assessees under section 273A and that their actions and decisions were controlled by the Central Board of Direct Taxes even though the provisions in Section 273A did not contemplate any guidance or interference by the Central Board of Direct Taxes.

2.68. Section 273A which came into force in October, 1975 relates to powers of the Commissioners to reduce or waive penalty in certain cases. Commencing on this, the Ministry have stated that "the Central Board of Direct Taxes have not issued any instructions to the Commissioners which have the effect of not allowing them to act independently in the petitions made by the assessees. The actions and decisions taken by the Commissioners u/s 273A are not controlled by the Central Board of Direct Taxes as the Board is aware that the powers which are vested in the Commissioners u/s 273A are quasi-judicial powers and have to remain unfeterred".

2.69. The Ministry have however, admitted, that during the years 1975 to 1979 in 14 cases falling under Section 273A, references were made by the Commissioners to the Central Board for "guidance/clarification" and the Central Board gave advice to the Commissioners in these cases.

2.70-71. During evidence, the Committee enquired how is the quasi-judicial rule of Commissioners of Income-tax was consistant with their seeking guidance and the Central Board giving it.

2.72. The representative of the Central Board stated that "there is no question of the C.B.D.T. interfering in any way with his basic powers, which are quasi-judicial in nature. We do not interfere with the discretion of the Commissioner in any case. But if the Commissioner while exercising his powers, applying his mind and of his own feels and refers a case to the Board for his own enlightenment and information, and on facts or law, we, having received a reference give him the advice. If it is purely a reference on the question of facts, we tell the Commissioner that he should apply his mind to the facts and decide the case accordingly. If he has a point which covers the ground of law and he wants an interpretation of the law, or of a particular expression used, we try to give him the clarification of the basic provision of the law in generality. Sometimes, we in turn consult the Ministry of Law and seek their advice. Based on that we also sometimes issue general instructions for all the Commissioners for their guidance."

2.73. The Committee note that the powers of reduction or waiver of penalty in certain cases vested in Commissioners of Income-tax under section 273A are quasi-judicial powers and have to be exercised by them unfattered. It has been represented to the Committee and admitted by the Ministry that cases falling under section 273A referred by the Commissioners to the Central Board of Direct Taxes for "guidance" and the Central Board give advice in these cases. It is seen that 14 such cases were so referred to and dealt with by the Central Board during the years 1975—79. The Ministry have stated that if a Commissioner makes a reference to the Board for advice on a matter or interpretation of law the advice is given by the Board but if a Commissioner makes a reference on a question of fact, the Central Board advise the Commissioners to apply his mind to the facts and decide the case accordingly. The Central Board have denied any inteference with the powers of the Commissioners under section 273A, which are of quasi-judicial nature.

The Committee regret to say that they cannot accept the explanation or denial of the Central Board. In the Committee's view such a reference to the Central Board for 'guidance' in cases falling under section 273A (affects the assessees ultimate right of appeal to the Board against the Commissioners' decisions) and also compromises the quasi-judicial role of the Commissioners. The Committee would like that instead of shifting the burden to the Central Board the Commissioners should apply their own mind and decide cases under section 273A independently in their quasi-judicial capacity without any 'guidance' or 'advice' from the Board and take the responsibility themselves. The Committee would expect the Central Board to issue clear instructions to all the Commissioners and desist from giving them any guidance or advice in such matters. (Serial No. 15)

Acceptance of Valuation Certificates issued by Authorised Valuers:

2.75. A leading Chamber of Commerce has stated that "the assessees are at present required to furnish valuation certificate from authorised valuers. This is not accepted by the department and such cases along with the certificates of authorised valuers are referred to the Valuation Cell, who generally gives high pitched valuation assessments. If the reports of registered valuers are not to be accepted, why have the system of registered valuers."

2.76. In this regard, the Ministry have stated that it would not be correct to say that the Valuations made by the Registered Valuers are not accepted by the Department in every case. Reference to the Valuation Officer is made by the Assessing Officer under section 16A of the Wealth-tax Act (and corresponding sections of other Acts) if he is of the opinion that the value of the asset as estimated by the Registered Valuer is less than its fair market value. During evidence the Committee (in January, 1981) enquired in how many cases in Delhi Charge the valuation certificates given by authorised valuers were accepted and in how many cases referred to the Valuation Cell during the year 1979-80. The information is still awaited. (March, 1981)

2.77. The Committee cannot but take note of the representations made by non-officials that Valuation certificates obtained by assessees from Registered Valuers are not accepted by the Department though the latter have denied the charge. The Department, when asked to furnish data to enable the Committee to judge for themselves the correct position, could not do so. The Committee would like the Department to make a sample study of the fate of valuation

certificates in Delhi, Bombay, Calcutta and Madras charges and apprise them of the results within six months. (Serial No. 16)

2.78. The Committee feel that the present system of requiring valuation certificate from Registered valuers should be reviewed if the Department find, in the light of the sample study referred to above, that by and large these certificates are not reliable. (Serial No. 17)

C. Permanent Account Number

2.79. The Ministry have informed the Committee that the system of allotting Permanent Account Numbers (PAN) to all assessees was introduced in 1972, purely as an administrative measure and tax-payers directories showing PAN etc. were not prepared with a view to enabling speedy location and identification of assessees assessed at other places in connection with verification of the genuineness or otherwise of transactions.

The system was put on a statutory footing when Section 139A was inserted by the Taxation Laws (Amendment) Act, 1975 *w.e.f.* 1st April, 1976. Under the provisions of this section every person whose total income is assessable to tax, or who is carrying on any business and the total sales/turnover or gross receipts are in excess of, or likely to exceed, Rs. 50,000 in any accounting year, shall apply to the Income-tax Officer for the allotment of a Permanent Account Number.

2.80. The Ministry stated that the allotment of PAN was originally done to all assessees existing as on 1st April, 1976 on the register of the Department. Thereafter as and when applications were received, the permanent account numbers were allotted. The allotment of PAN is a continuous process and as on any given date there is always some backlog. The Ministry further stated (Oct. 1980) that however, the Board had asked the Commissioners to allot the PAN an applications filed upto 15th November, 1979. This is a continuing process and the work will have to be updated from time to time.

According to the representatives of Trade & Industry the permanent account numbers are not allotted when sought by the assessees and this had caused serious problems for them while dealing with the assessment cases. They have suggested that a time limit of 90 days should be provided in the Act for allotment of Permanent Account Numbers by the Income-tax Department.

2.81. Commenting on this, the Ministry have stated (Dec. 1980) that "no useful purpose is likely to be served by fixing any time limit for allotment of PAN as it will only be directory in nature. The enforcement of the provision has to be effected through administrative instructions and close supervision.

2.82. During evidence, (Jan. 1981) the Committee were informed that in all the Commissioners' charges throughout the country, PAN had been allotted to all those who had applied for it by 15 November, 1979. The representative of the Central Board also stated that "the maximum time limit for which these applications may now be pending would be about 13 months. As the department has a severe shortage of manpower, this area of work was, I must confess, neglected in the past, but we are trying to see that the Permanent Account Numbers are allotted to those who ask for them within a reasonable time."

2.83. The system of Permanent Account Number (PAN) was introduced in 1972 and placed on statutory footing in 1976 with a view of enabling speedy location and identification of assesses. PAN is allotted by the Deptt. on receipt of applications from assessees. It has been represented to the Committee that Permanent Account Numbers are not allotted by the department promptly. As in January, 1981 the Deptt. had allotted PAN to all those who had applied for it by 15 November, 1979 and there could be a backlog of 13 months in the issue of PANs to the applicants. The Central Board admitted during evidence that "this area of work was neglected in the past" due to severe shortage of manpower. The Committee would like that Permanent Account Numbers should be allotted to those who apply for them within a specified period say, 6 months, and the pendency beyond this period should be looked into by the Central Board. (Serial No. 18)

2.84. At present PANs are allotted to those assessees only who apply for them. In the Committee's view it is very necessary that all assessees, whether they apply or not should have PANs as soon as they are enrolled on the registers of the Department. The Committee would like the Central Board to take necessary steps in this direction. (Serial No. 19)

Issue of Pass Books to Assessees:

2.85. It has been suggested by a number of non-officials that pass books with Permanent Account Numbers should be supplied to all assessees. All payments of tax should be recorded in pass books

and authenticated by the authorities receiving payments either at the end of the year or any time during the assessment year. The tax authorities might call for the pass books and attest the entries made there and match them against the tax liability of the assessees.

2.86. The Ministry of Finance, however, did not agree to this suggestion stating that "under the proposed system of bank pass book, presumably as a substitute for the existing system, every time the Income-tax Officer has to find out whether the taxpayer has made the payment of tax within the prescribed time or not, he will have to call for the bank pass book or get that information from the concerned bank. This will cause several difficulties and problems to the Department and inconvenience to the taxpayers and would dilute the control of the Department over the timely recovery of tax dues."

The Ministry have also stated (December, 1980) that "the Direct Taxes Enquiry Committee (1971) had considered the suggestion of introducing the bank pass book but it did not favour introduction of the same. The Choksi Committee (1978) had also made a similar recommendations not as an alternative to the system of maintaining the challans but in addition to the existing system as reproduced below.

"Government may consider the introduction of a system of tax accounts in public sector banks, on a compulsory basis in the case of companies and other big taxpayers, and on a voluntary basis in the case of other taxpayers." This recommendation is under consideration of the Government. (January, 1981).

2.87. During evidence, the representative of the Central Board of Direct Taxes explained that:—

(i) The Department maintain accounts on cash and challan basis.

(ii) Introduction of ledgerised system of accounts for each payer (and for each tax) is necessary for issuing pass books to the assessees. The ledgerised accounting system was tried in a limited area, but it failed.

(iii) The pass book system would increase the work load considerably.

(iv) Each assessee will have to be linked to a particular bank branch.

When the Committee pointed out that the present accounting system was cumbersome and that on many occassions the assessees faced difficulties in getting credit for the payments made by them due to late receipt of scrolls from the banks, the representative of the Central Board stated that "because of the multifarious points of receipt—advance tax, self assessment, etc., we have not been able to adopt ledger system. We are aware of the fact that we should move towards the system."

2.88. Supplementing this, the Chairman, CBDT stated that "the ledger system is very good in principle. Introduction of this would need a large number of staff which we do not have and we may not have in the forseable future. We tried the system in some of our offices, but we found that the system cannot be worked without more staff."

2.89. It has been suggested by non-official organisations. that pass books with permanent account numbers should be supplied to the assessees and all payments of tax dues should be recorded therein. This system, it was stated, would help assessees to overcome the difficulty of getting credit for payments in the event of late receipt of challans from the Banks. The Committee find that a similar suggestion has also been made by Choksi Committee. According to the Ministry the introduction of ledgerd accounting system is necessary for issuing pass books. This system was tried by the Department in a limited way but had failed. In any case, introduction of ledger system would require a large number of staff which the Department could not have in the forseable future.

2.90. While the Committee appreciate the difficulties of the Department they feel that the difficulties of the assessees are also real and need a sympathetic consideration. The Committee would suggest that the question of introduction of pass books should be studied by the Department with an open mind in conjunction with non-departmental experts with a view to finding out whether and if so, in what form the system of pass book could be adopted without adding much to the administrative cost.

(Sl. No. 20)

D—Points of Collection.

2.91. At present only a few nationalised banks are authorised by the Department to receive payments of Income Tax. It has been suggested to the Committee that all or more nationalised banks should be authorised to accept such payments to avoid inconvenience to assessees.

2.92. The representatives of the Central Board informed the Committee during evidence that:—

(1) Prior to April, 1976, only Reserve Bank of India, a few Branches of State Bank of India and Treasuries were authorised to receive payments of tax amounts.

(2) Subsequently the State Bank of India and all subsidiaries doing Government business and two or three public sector banks in selected places were authorised to receive such payments.

(3) Starting with 8 Centres in 1976, today the scheme of public sector banks accepting payments is applicable to 370 and odd places. At present payments towards income tax dues are accepted in about 5400 points all over country.

(4) The number of points of collection has been increased manifold since 1-4-1976, for example in Bombay prior to 1-4-1976 income tax dues were accepted only at four receiving points, but now, at 218 points income tax is accepted. Similarly, in Delhi earlier there were 22 points of collection. Now, at 199 points income-tax dues are accepted.

2.93. During evidence the representatives of the Central Board also explained that increasing the number of authorised banks for receiving payments would increase documentation work in banks and cause delays in receipt of accounts from banks to focal points, from focal points to Reserve Bank of India and from Reserve Bank of India to the Department. When asked whether the number of public sector banks authorised to receive such payments cannot be increased from three at present to, say, six for the assessees' convenience, the Finance Secretary stated that "I agree, we should move towards authorising more banks to receive cheques. From the point of view of the Department, if the information (accounting data) is to be received from 10000 or 11000 points instead of 5000 points, to that extent the task of reconciling the figures of collection will become difficult. The difficulties are not insurmountable, but we have got to stabilise the operations before proceeding further."

2.94. The Committee note that at present payments towards income tax are accepted at Reserve Bank of India, State Bank of India, Treasuries and two or three designated public sector banks. There are about 5,400 such receiving points all over the country

and they are increasing every day. The need for authorising more public sector banks to receive tax payment had been felt in non-officials circles and brought to Committee's notice. The Department feel that increasing the number of banks authorised to receive payments would cause certain accounting problems and delays but as admitted by the Finance Secretary, these difficulties are not insurmountable. The Committee feel that for the convenience of assessees, the Department should not grudge increasing the number of public sector banks authorised to receive tax payments from three at present to at least nine in the immediate future. . .

. . (Sl. No. 21)

E. Revenue Audit

2.95. Some representatives of industry have stated that revenue audit conducted by the Office of C&AG creates problems. According to them the officers of C&AG take upon themselves the role of interpreting the law. The representatives pointed out that in one case (Eastern Union Newspapers Ltd., 1980), the Supreme Court is reported to have held that it was not the work of C&AG's office to interpret the Income-tax law.

2.96. Dealing with the matter, the Finance Secretary stated during evidence that "Revenue audit is one of the important duties cast on the Comptroller and Auditor General and I would not subscribe to the view that revenue audit creates problems".

The witness addd that "in the Supreme Court judgment cited, if I have understood it correctly, what the Supreme Court has said is that law is what is interpreted by the courts. It is not for the Central Board of Direct Taxes to lay down law nor is it fair."

The Finance Secretary also informed the Committee that an understanding has been reached with the C&AG that if the Ministry|Central Board of Direct Taxes do not accept the interpretation of the law by the C&AG, the matter may be taken to the Law Offices. The C&AG has agreed that if the Law Ministry gives a ruling in the case he will not question it. The ruling given by the Law Offices is accepted by the Ministry and the Central Board also.

2.97. The Committee take note of the understanding reached among the C&AG, Ministry of Finance and the Central Board of Direct Taxes that if an interpretation of law given by C&AG is not acceptable to the Ministry/Central Board and if the matter is

taken to the Law Officers of the Vovt. of India at appropriate level, the ruling given by the law Officers would be acceptable to all of them. (Sl. No. 22)

F. Refunds

2.98. Refund is due to an assessee if the amount of tax paid by him for any assessment year exceeds the amount with which he is properly chargeable under the Income Tax Act for that year.

A claim for refund may arise if the tax deducted at source or otherwise paid is in excees of the tax payable as per the returned income. Refunds arising on account of excess tax deducted at source on dividends or interest on securities to assessee who have no income from business are known as pure refund claims. Refunds also arise on account of giving effect to the appellate orders or revisionary orders under section 263 and rectification order under section 154|155.

2.99. The assessees can also claim refund under section 141A where on furnishing the return under section 139 he claims that the tax paid or deemed to have been paid on his behalf exceeds the tax payable on the basis of the return.

2.100. The Ministry have informed the Committee that the Board have issued instructions from time to time emphasising the need for prompt action in the matter of granting refunds. The Board in their letter dated the 6th April, 1978, requested the Commissioners to take disciplinary action in cases where refunds were not issued within 7 days.

2.101. The Ministry have also stated that for vouchers upto the value of Rs. 999 the practice of issuing advice notes has been discontinued w.e.f. 1st January, 1980. The vouchers in these cases are in the nature of a cheque.

In respect of pure refunds, refund Circles have been set up in metropolitan cities for expeditiously deciding the pure refund cases. Further, with a view to keeping proper watch on the disposal of the refund applications, the Board had issued instructions in April, 1979 asking the officers to maintain separate register for this purpose.

2.102. Section 243 lays down the time-limit within which no interest is payable by the Government if the claim of the refund is settled within the said time. In respect of refund claims where

the total income consists solely of interest on securities or dividends, interest is payble if the refund claim is not settled within three months from the end of the month in which the refund is made. In other cases, interest is payable if the refund is not paid within three months from the end of the month in which the total income is determined. Interest is payable at the rate of 12 per cent for the period of delay.

2.103. Under Section 244 of the Income Tax Act where a refund is due to the assessee in pursuance to any order passed in appeal or other proceedings, interest is payable by the Government if the refund is not granted within a period of three months from the end of the month in which such order is passed.

2.104. The Ministry have stated that "although no time has been prescribed in the Act for granting refunds, the provisions regarding payment of interest for the delay act as a safeguard against undue delays. Administrative instructions are also insued to minimise the delay."

2.105. During the course of evidence, the Committee were informed that no interest u|s 243 was paid during the last 3 years in Delhi and Bombay charges. However, interest u|s 243 amounting to Rs. 77,000 in 787 cases was paid in other charges during the financial year 1978-79. Further, interest of Rs. 23,06,000 was paid in 1528 cases throughout India during 1978-79 u|s 244. The Ministry have also stated that at the instance of the Committee, the Directorate of O.&M.S. has been asked to conduct a study, of a few representative Income-tax circles in the various Commissioners' charges in Delhi for streamlining the position of issue of refunds and for ensuring grant of interest on delayed refunds.

2.106. With regard to the actual implementation of the provisions regarding Refunds and payments of interest on delayed refunds by the Department, a number of representations to the following effect have been received by the Committee:—

(i) Refunds are not granted unless the assessees vigorously pursue the cases with the Department.

(ii) Interests are nearly paid even if due.

(iii) The assessees do not complain about the delay in, or non-payment of interest on, refund to higher authorities for fear of annoying the ITOs and risk of reprisals.

(iv) Even though in certain cases refund vouchers are stated to be enclosed to the Assessment Orders passed by the ITO, the refund vouchers are not in fact so enclosed with the result that the assessees have to pay a number of visits to the Income-tax Department to get the refund vouchers.

(v) Even where refund vouchers are sent alongwith the Assessment Order, advice to banks is not sent simultaneously with the result that the parties cannot get the refund vouchers encashed. Sometimes in this process the last date expires and the party has to take up the matter again with the Department for revalidation of refund vouchers.

2.107. Commenting on these, seriatim the Ministry have stated that:—

(i) Every effort is made to ensure that issue of refunds is not delayed. The contents of the representations are in the knowledge of the Department. With the deployment of more manpower and tightening of administrative machinery, the position is expected to improve for the better in the coming years.

Commissioners of Income-tax and Inspecting Assistant Commissioners are required to keep a close watch on issue of refund vouchers along-with the assessment orders during the course of their surprise as well as regular inspections.

The Income-tax Officer is duty bound to sign the advice note alongwith the refund voucher. The advice note is sent to the Bank and an acknowledgement is required to be obtained from the bank regarding the date of receipt. If there is any undue delay between the date of preparation of the advice note and its receipt by the bank an adverse note is to be taken of during inspection. Advice notes are not to be issued now in cases of refunds upto Rs. 999/- which take care of approximately 80 per cent of the total number of refunds issued.

As already explained, it is the responsibility of the Income-tax Officer to ensure that refund orders and advice note are sent to the assessee and to the bank respectively simultaneously. Undue delay in this regard is to be viewed seriously.

2.108. Some non-officials also suggested that "disciplinary action should be taken against the staff delaying despatch of refund orders or advice."

Commenting on this sugestion the Ministry have stated that:—

> "The Board had already issued instructions that refund orders should accompany the assessment order or the order giving rise to the refund. It has further been laid down that disciplinary action may be initiated in all the cases where refund voucher is not issued within 7 days of the passing of the order except under exceptional circumstances warranting delay beyond seven days. Monthly certificates are also furnished by the Income-tax Officers to the Commissioner that no refund order has been delayed beyond seven days and where refunds have been delayed, these delays are properly explained. The Board has also laid down that the issue of refund will be primarily the responsibility of the Income-tax Officer. However, sometimes due to difficulty in verification of outstanding arrears or taxes paid, there is delay. Every effort, however, is being made by the Department to ensure that refunds are issued expeditiously."

2.109. Asked about the number of cases in which the Commissioners in Delhi and Bombay took disciplinary action against ITOs in cases where refunds were not given within 7 days, as per the Boards instructions of 6th April, 1978, the Ministry have stated that no disciplinary proceedings were initiated in Delhi and Bombay charges for delay in issue of refunds beyond 7 days during the last two years.

2.110. During evidence, the Committee enquired as to how was it that no interest under Section 243 was paid to any assessee during the last 2 years in Delhi and Bombay charges. The Chairman, Central Board replied "we have issued instructions that, when interest is due to an assessee, it should be paid forthwith. The point has been raised that interest is not being paid. I can assure you that we will have it looked into and if we find that it is so, we will have a machinery to see to it that interest is paid."

2.111. When the Committee pointed out that the Departmental instructions had not yielded the desired results, the Finance Secretary stated:—

> "We take note of the legitimate apprehension of the Committee that, though section 243 is there on the Statute Book, it is virtually a dead letter because no assessee claims, nor does any Income-tax Officer grant the interest on delayed payments. Now we would deal with this

problem. May be ITOs do not allow interest on delayed refunds because they will then get an audit objection. We should tell the ITO, pay interest on delayed refunds wherever it is due in terms of section 243; do not be under the apprehension that Government will take disciplinary action against you or will recover the interest from you as long as you have acted reasonably promptly in the large majority of cases. We will take action on this."

ADJUSTMENT OF REFUNDS AGAINST FUTURE TAX LIABILITY

2.112. It has also been suggested to the Committee that whenever refunds are due and are not paid within the prescribed period, the assessees should be allowed to adjust the amount against his future tax liability.

In this regard, the Ministry have stated that "adjustment of refund is made now not by book adjustment but by actual issue of refund voucher in favour of the Department. Giving the discretion to the assessee to adjust the amount of refund due to him, may lead to much more complications and accounting difficulties and the suggestion, therefore, is not acceptable."

2.113. During evidence, the representative of the Central Board explained that "where there is an admitted liability and there is a refund which has been determind, we issue a refund voucher and if the assessee requests that the refund should be adjusted against his existing liability, the Income-tax Officer who is to issue a refund voucher will issue the refund voucher in favour of the other income-tax payer or in his own favour in case there is an existing liability against the assessee in respect of any assessment year. To that extent, we make an adjustment already. But in the case of a future liability, it may not be quite possible."

2.114. As a measure to curtail the delay that is being experienced in getting refunds, under section 141A some representatives of industry have suggested that the cases involving refunds should be separated by the department at the time of filing of the returns. For this purpose, the assessees whose cases involve refunds can be asked to paste a slip in red colour indicating in bold letters "refund."

Commenting on this suggestion, the Ministry have stated that "instructions have been issued from time to time to the Income-tax Officers to ensure completion of provisional assessment in time

and to issue the refund without payment of interest. The suggestion made by the Committee has been noted and would be examined further."

2.115. Reports have reached the Committee from various quarters that, generaly speaking, assessees neither get refunds promptly nor receive interest on delayed refunds to which they are entitled under the law and they do not complain either for fear of reprisals. On making a sample study, the Committee learnt that, in Bombay and Delhi charges, no interest was paid under Section 243 during the last 3 years nor, during the last 2 years, any disciplinary action which is required to be taken in cases of delay was taken in any case. The Committee wish more data were available to enable them to find out whether Bombay and Delhi charges were so efficient as not to delay refund even in a single case during the last 3 years or that these charges could manage to avoid paying due interest on delayed refunds somehow or other. The Finance Secretary, who was forthright took note of the Committee's apprehension "that, though Section 243 is there on the Statute book, it is virtually a dead letter because no assessee claims, nor does any income-tax officer grant the interest on delayed payments." He assured the Committee to take action in the matter. The Committee would like the Ministry to enquire into the phenomenon of non-payment of interest under Section 243 and inform them within six months of the facts under all commissioners charges together with the steps the Ministry propose to take to set things right. (Sl. No. 23).

2.116. The Committee find that, during 1978-79, a sum of over Rs. 23 lakhs was paid as interest on delayed refunds under Section 244 through out the country. What further evidence is needed to establish that refund claims have infact been delayed by certain officers causing not only heavy loss to the exchequer but also harassment to assessees. The Committee urge that a thorough enquiry into cases of delays in settlement of refunds be held with a view to analysing the reasons for delay and taking effective measures to remedy the situation. They would also like to know whether the Deptt's instructions requiring disciplinary action being taken in cases of delay were followed in all cases of delay and, if not, why not? (Sl. No. 24).

2.117. The Committee feel that the root cause of the sad state of affairs in refund cases appears to be the lack of a proper information system capable of bringing delays in settlement of refund claims to the notice of supervisory officers periodically as a matter of course. What is needed is a more methodical system of work

which may inter alia, provide for a separate account of receipt and disposal of refund cases with a built in procedure to enable the senior officials to monitor the progress at regular intervals. The Committee would like the Department to evolve a suitable system in this regard and apprise the Committee. (Sl. No. 25).

2.118. The system should provide for a distinctive colour or making for refund claims to prevent the refund claims from getting mixed up with other papers. (Sl. No. 26)

2.119. Even though instructions are stated to have been issued by the Board that refund orders should accompany the assessment orders or orders giving rise to refunds, from the complaints reaching the Committee, it appears that these instructions too are not being observed by all the ITOs. Similar complaints have been received about non issue of advice to banks simultaneously with the issue of refund vouchers in cases where bank advice is required to be issued. It is doubtful whether, even in these cases, disciplinary action has been taken against any officer for delays in issue of refund vouchers even though such an action is required to be taken under administrative instructions. The Committee would like that case studies of this aspect of the working of a few charges on a selective basis be also made and the system of working made foolproof in the light of the results of the studies to avoid any complaints on this account. The Committee would like to be informed of the action taken in the matter. (Sl. No. 27).

2.120. According to the present procedure a determined refund can at the request of an assessee concerned, be adjusted against an admitted tax liability of the assessee. But the Department are not prepared to allow the assessee to adjust an unpaid but determined refund against a future liability as suggested by some non-officials. They would like the Department to examine the suggestion further to see if it can be accommodated in the scheme of things in any refined form. (Sl. No. 28).

G. Artistes Liability under Wealth Tax

2.121. Regarding Annuity Insurance Policies and cine-artistes' wealth tax liability, an association has made the following representations:

(i) The Government of India after considering the proper taxability of income of film artistes had evolved a scheme of deferred compensation through the Life Insurance Corporation of India Annuity Polices. However at later

stage, the assessing Income Tax Officers, taking the lump-sum insurance premium paid on Annuity Policies as 'constructive receipts' in the hands of the artistes, included such lumpsum premium amounts as their income in the year in which the premium is paid. On representations made by the Association, the correctness of this view was re-examined by Government and, as a result, the Central Board of Direct Taxes issued instructions in February 1980, advising the Assessing Officers that the correct position in law was to treat only the annuity instalments received by the artistes year to year as the receipt of income for that year.

(ii) When the Annuity Policy Scheme for the Film Artistes was evolved, it was the definite assurance given by the Board that the annuity instalments that would be received by the artistes would be subjected to income-tax liability in the hands of the artistes in the respective particular year as and when the same is received and that the premium paid for such Annuity Policy would not be treated as "asset" for assessment for wealth-tax. Till recently such policies were not considered as "assets" for wealth-tax.

(iii) Annuity Policy is also an Insurance Policy and it should be treated and placed *paripasu* with that of other Life Insurance policies, etc.

(iv) In the case of Life Insurance Policy whatever premium is paid, relief is allowed to the extent of premium against the income for Income-tax Assessment purpose. When the insured amount is received at maturity, or otherwise, in any circumstances the same is not attracted for being subject to taxation.

(v) When the Annuitant cannot have any hold or claim on the Annuity Insurance Policy except to claim the yearly instalments on the agreed yearly due dates, and when the Annuitant cannot have any use of the Annuity Policy, it would be gross injustice to hold and treat the premium paid under Annuity Insurance Policy, as "wealth" in the hands of the Annuitant. The injustice becomes glaring when compared with Life-Endowment Insurance Policies, which have all the benefits for the use of the same by the Insured, yet have been given exemption in all these respects for wealth tax purposes. To subject the Annuity

policy itself to wealth tax, and then again subject the balance income out of the yearly instalments, also to wealth-tax, would mean "double taxation."

2.122. The Ministry have stated that "we are unable to locate any assurance given by the Board that the premium paid for Annuity policy would not be treated as an asset at all for wealth-tax purposes. Actually Finance Act, 1974, made amendments in section 2(e) (ii) and section 5(1) (vi) of Wealth Tax Act, 1957 to bring to wealth-tax such policies under certain circumstances; prior to this amendment, such policies were not liable to Wealth-tax.

Income-tax and Wealth-tax are two different concepts. Wealth-tax is levied on net wealth of an assessee which, briefly speaking, means the amount by which the value of assets belonging to the assessee is in excess of the value of debts owed by him. "Assets" as per definition under section 2(e) "includes property of every description movable or immovable....." The term "assets" would also include the right of an assessee to get certain yearly instalments by virtue of an annuity policy.

The fact that the annuity policy cannot be transferred, surrendered or assigned to anybody would not make any difference because what is contemplated under section 7 of the Wealth-tax Act, is a hypothetical market under which an asset can be sold with all its attendant restrictions.

The amount of yearly instalment received or the balance out of that after expenditure, if any, on the valuation date would undoubtedly form part of the total wealth.

In short, value of the tax payers' right or interest in an annuity policy would be taxable under the Wealth-tax Act unless there is a specific exemption therefor."

2.124. During evidence, the representatives of the Association drew attention to the reasons given in Parliament while amending the Wealth Tax Act namely that some individuals had taken undue advantage of the exemptions granted earlier. They pointed out that there might have been some exceptions but it was not proper to harm the majority for the lapses on the part of a few. In fact, the misuse was from people outside the film industry and not by the cine artistes.

2.125. The Committee enquired whether it was the misuse by film artistes or others that led to the withdrawal of this facility. The

Ministry of Finance have stated in reply, that "prior to the amendment made by the Finance Act, 1974, the value of the right or interest of the assessee in any policy of insurance before the maturity of the policy was exempt from wealth-tax. Besides, the right of a person to receive an annuity was not regarded as the asset of the taxpayer for reducing the incidence of wealth-tax. With a view to circumventing tax avoidance through the device of single premium insurance policies or non-commutable annuity contracts, the Finance Act, 1974, made two modifications in the then existing provisions of the Wealth-tax Act in this regard.

2.126. Under the first amendment, the value of the taxpayers right or interest in a policy of insurance was exempted from tax only if the premia thereon were payable over a period of ten years or more. In cases where the premia were payable over a period of less than ten years, only a proportionate amount of the value of the taxpayer's right or interest in the policy of insurance was exempted from wealth-tax. Under the second amendment, the value of the taxpayers right to receive an annuity purchased by him, or purchased by another person in pursuance of a contract with the taxpayer, was to be regarded as his asset for the purposes of wealth-tax, irrespective of whether the annuity was commutable or not. The single premium policies are purchased by not only film artistes, but others. Although no specific evidence is available at present, it is difficult to say that it was the misuse by film artistes alone that led to the amendment of section 2(e) (2) (ii) of the Wealth-tax Act 1957."

2.127. Asked whether the film artistes and the like who have a very short period of career needed some relief for their lean days and old days, the representative of the Ministry stated during evidence:

> "We do recognise that the film stars, who have a short span of earning capacity, should get some relief. That is the reason why we have recognised this annuity policy for income-tax purposes. As far as wealth-tax is concerned, I think, the film stars can have a reasonable cause for complaint because when annuity scheme was accepted by the Department, at that time the wealth-tax position was different. Though we had not given an assurance that they would be exempted from wealth-tax, many of the film stars would have taken the annuity policies under the impression that they would be exempted from wealth-tax. So, to that extent, they have a cause for complaint."

During evidence, the representative of the Ministry further added:

> "I understand that it is not only because of the film artistes but also other people that this change has been introduced in the wealth-tax. Quite a large number of people have been purchasing single premium insurance policies, not only film stars but also others. That is why this has been done."

2.128. A non-official organisation has brought to the notice of the Committee the hardship caused to cine artistes by the amendment made to Wealth Tax Act in 1974. It has been represented that the premia paid towards Annuity Insurance Polices should not be included in the Wealth Tax for the purposes of Wealth Tax Act, as was the position before 1974. The premia should be treated like premia paid for life insurance policies for the purpose of relief under the Income Tax Act. The Ministry have stated that till 1974, the value of the right or interest of the assessee in any policy of insurance before the maturity of the policy was exempted from Wealth Tax. In 1974 Wealth Tax Act was amended to provide the value of the taxpayer's right to receive an annuity purchased by him or purchased by another person in pursuance of a contract with the taxpayer was to be regarded as his asset for the purpose of Wealth tax, irrespective of whether the annuity was commutable or not. These provisions were inserted with a view to preventing tax avoidance through the device of single-premium non-commutable annuity contracts. The Ministry have conceded that it was not only because of the film artists but also others that the changes had been introduced in the Wealth Tax. They have further conceded that it is recognized that the film stars who have short span of earning capacity should get some relief. That is why the annuity policy had been recognized for Income tax purpose. They have admitted that film stars can have a reasonable cause for complaint because when the annuity scheme was accepted by the Department at that time the wealth tax position was different. Thereafter although the Department had not given an assurance that the film artists would be exempted from wealth tax, many of the film stars would have taken the annuity policies under the impression that they would be exempted from wealth tax. So to that extent they have a cause for complaint. Film artists and certain other professionals are, however, entitled to higher level of relief on long term savings under the Income-tax Act than others.

2.129. Th Committee have gone into matter. They are of the opinion that film artistes and other categories of professionals such as authors, playwrights, musicians, sportsmen (including athletes) who have a relatively short span of professional life need some relief for their lean and old days. The cases of once highly successful film artistes, sportsmen, authors, etc. languishing in old days are too well known to require recounting here. The Committee feel that the general question of adequacy of existing tax concessions to such professionals having a short professional life and uncertain future, including the gains to revenue and loss to professionals as a result of withdrawal of concessions under Wealth-tax Act in 1974, should be dispassionately reviewed with a view to rationalising the tax provision. (Sl. No. 29).

CHAPTER III

APPEALS

A. Appellate Procedure:

3.1. The Income-tax Act provides for a very elaborate heirachy of appellate and revisionary authorities. The Act provides for a two-tier system of appeals. The main channel of appeal against the order of the Income-tax Officer, is to the Appellate Assistant Commissioner/Commissioner of Income-tax (A). The second appeal against the order of the Appellate Assistant Commissioner/Commissioner of Income-tax (A) lies with the Income-tax Appellate Tribunal. The Income-tax Appellate Tribunal is the final fact finding authority under the I.T. act and its finding finally settles questions of fact that may be disputed. However, if questions of law are disputed then a reference against the Appellate Tribunal lies with the High Court and a further appeal against the judgment of the High Court lies before the Supreme Court.

3.2. Apart from this heirachy, the Commissioner of Income-tax has certain revisionary powers envisaged under section 263 and section 264, of the Income-tax Act. Under Sec. 264, the assessee may file a revision petition before the CIT against the order of the AAC and get relief depending on the merits of the case.

The Ministry have informed the Committee that "Disposal targets have been fixed by the Board for disposal of pending appeals or revision petitions by the Commissioner of income-tax (A)/Commissioner of Income-tax/AACs and the Board maintains a close watch over the disposal of appeals and ensures that the targets fixed are met. Though the law does not fix any time limit for disposal of appeals, in practice appeals before the Departmental Appellate Authorities are disposed of within a certain time limit.

Disposal of Appeals by AACs

9.3. The Ministry have furnished the following statement indicating the number of appeals received and the number of appeals

disposed of by AACs during the last three years:—

Year	No. of appeals pending at the beginning of the year	No. of appeals received during the year	Total	No. of appeals disposed of during the year	No. of appeals pending at the end of the year
(1)	(2)	3)	(4)	(5)	(6)
1977-78	2,35,849	2,26,386	4,62,235	2,39,336	2,22,899
1978-79	2,22,899	1,98,410	4,21,309	1,69,559	2,51,750
1979-80	2,51,750	2,08,763	6,60,513	1,55,312	3,05,201

3.4. The Ministry also informed the Committee that out of the 3,05,201 appeals pending as on 31-3-80, 80749 appeals were pending for one to two years, 27773 appeals for two to three years, and 18005 for more than three years. Asked about the reasons for such a huge accumulation of appeals before the AACs, the Ministry have stated that five years back pendency of appeals before AACs as on 1-4-1975 was 2.20,478. The increase in pendency during the last five years was by 85,000 or so. Such increase was mainly attributable to last two years i.e. 1978-79 and 1979-80 in which years the yearly institutions were much more than the total disposals of appeals. Due to upgradation of certain posts the Department were left with 121 sanctioned posts of AACs in 1978-79 as against 201 in 1977-78. The same strength remained in 1979-80 also. This affected the total disposal of appeals in the two years which is less than the yearly institution.

3.5. Asked whether any norms for disposal of cases by AACs had been prescribed, the Ministry stated that quota for AACs was fixed at 200 appeals per month in July 1978. On appraisal of the performance of AACs, this quota was found to be on the high side. Therefore, the Board revised the quota, from October, 1979 to 150 per month for AACs working in the 4 metropolitan charges *viz.* Calcutta, Bombay, Madras and Delhi and 165 for AACs at other places. The following statement indicates the average working strength and also the average disposal per AAC, during the last 5 years.

Financial year	Working strength	Total disposal	Average disposal Yearly	Per AAC Per month
(1)	(2)	(3)	(4)	(5)
1975-76	164	245404	1496	125
1976-77	138	230129	1667	139

(1)	(2)	(3)	(4)	(5)
1977-78	181.5	239336	1322	110
1978-79	120	169559	1412	117
1979-80	105	155312	1480	123

3.6. The Ministry have stated (Dec. 1980) that "the Government have recently sanctioned creation of 36 additional posts of AACs. This requirement was worked out on the basis that at the end of the next four years not more than six months workload of appeals should be pending with each AAC. It was assumed that the average current institution in the next four years would be around 2,25,000 per year and that the expected average disposal per AAC would be 1700 appeals per annum. With this objective to be achieved, the strength of AACs required was worked out at 157 as against the existing strength of 121 AACs."

3.7. During evidence the Committee pointed out that the average disposal of cases by an AAC during the last 5 years had not been more than 1500 appeals in any year. On the Committee enquiring how the Ministry had assumed an average disposal per AAC as 1700 appeals per annum, while fixing their strength, the Chairman, Central Board replied that "the assumption of 1700 appeals with the Appellate Asstt. Commissioners is somewhat unrealistic on the basis of the actual output during the last few years." We fix a quota which is somewhat challenging. We know that we may not be able to achieve the quota. We try to do so. If we fall short of quota, I do not think we should be very much upset."

3.8. Supplementing this, the Finance Secretary said that we fixed a larger quota because with the institution of Appellate Commissioners, we felt that relatively more complex cases will go to the Commissioners (Appeals). Appellate Assistant Commissioners will have to handle easier cases. Therefore, they should strive and achieve better output of work. Whenever you fix a target for any organisation it must be something which they should strive for. If it has been found unrealistic, we will review it."

Disposal of Appeals by CITs (Appeals)

3.9. It is seen that as on 31st March, 1979, 27,444 appeals were pending with the Commissioners of Income-tax (Appeals) and this number went up to 46,950 appeals as on 31-3-1980. Out of 46,950 pending

appeals 11,356 appeals were pending for one to two years and the balance for less than a year.

3.10. The University have also stated that quotas of disposal for Commissioners (Appeals) was fixed at 75 per month from October, 1978. In respect of the charges dealing with Central Circles appeals, monthly quota was fixed at 40 in absolute number. The Board after a review decided that the quotas fixed were slightly unrealistic and needed revision. Therefore, it was decided that from October, 1979 onwards the CsIT(A) dealing with Central Circle appeals should dispose of 30 appeals per month. The CsIT(A) working in four metropolitan income-tax charges, namely, Bombay, Calcutta, Madras and Delhi should dispose of 60 appeals per month. The other Commissioners (Appeals) should dispose of 70 appeals per month.

3.11. At the instance of the Committee the Ministry have furnished the following details regarding quotas fixed and actual disposal of appeals by CITs (Appeals) in Delhi and Bombay:—

Name of the Charge	Year	Quota fixed Total	Sanctioned/ actual strength	Actual/weighted disposal
Delhi	1978-79	5720	10/8	2077
	1979-80	7500	11	4935/5503
Bombay .	1978-79	5440	13/8·4	2738
	1979-80	9750	13	7006/7731

From the above, it is seen that in 1979-80, even when the quota was reduced in the middle of the year, the disposals of appeals in Delhi and Bombay were much below the targets.

3.12. During evidence, the Committee enquired about the reasons for the shortfall in disposal of cases by the Commissioners of Income Tax at Delhi and Bombay, the Chairman Central Board stated that "the institution of CIT (Appeals) is a new one. It came into existence only from July, 1978. They were given specified types of appeals. So, we could not go by any past history in fixing the quota. We fixed a very high quota. When we found that the quota was very high, later on, we reduced it."

Disposal of Revision Petitions by Commissioners of Income Tax

3.13. The number of Revision Petitions received by the Commissioners of Income-tax and the number disposed of during the last 4 years, according to the Ministry are given below:—

Year	No. of Revision Petitions pending at the beginning of the year	No. of Revision Petitions received during the year	No. of Revision Petitions disposed of during the year	No. of Revision Petitions pending at the end of the year.
1976-77	7571	13469	13645	7395
1977-78	7395	14919	11177	11137
1978-79	11137	13246	12950	11433
1979-80	11433	12533	10580	13386

3.14. The Committee were also informed that out of the 13,386 applications pending as on 31 March 1980, 2792 applications were 1 to 2 years old, 1593 two to three years old and 1439 for more than 3 years old.

Asked about the steps taken to expedite the disposal of revision applications, the Ministry have stated that in the Annual CIT's Action Plan for 1980-81 the targets have been fixed as follows:—

(i) Disposal of 80 per cent of petitions filed upto 31-3-1980 and

(ii) Disposal of 50 per cent of the current workload.

3.15. During evidence, the Committee pointed out that based on the calculations on the pendency at the end of the year 1979-80 (13386 cases) and the average receipt of new revision petitions during a year at 13000, the CITs (Appeal) will have to dispose of a total of over 17000 cases during 1980-81 according to the Action Plan. But in actual practice it is seen that during the last four years the total number of cases disposed by CITs had never been more than 13645. Asked whether, in the light of the past experience, Action Plan could be considered realistic, the Chairman, Central Board replied that "here also we put the targets slightly higher to make it more challenging. During the current year, I think, our performance would be better than that during the last four years. This year, we have been able to see that, as far as possible, no Commissioner's charge is kept

vacant. As soon as the vacancy arises, we fill it up. Even leave vacancies are filled up."

Hearing of Appeals

3.16. Referring to the delays in getting final orders in appeal cases, in which hearings had taken place some non-officials suggested to the Committee that if a hearing had taken place in an appeal case and no further information was required, but in the meantime the Appellate Commissioner or Assistant Appellate Commissioner was ordered to be transferred, he should be required to record the order before handing over charge.

Asked about the procedure followed in this regard, the Chairman, Central Board explained during evidence that "our instructions are that when an order for transfer of an AAC is received, before he hands over the charge, he should pass orders in all those cases which have been fully heard by him."

Independence of Departmental Appellate Authorities

3.17. The Committee have received a number of representations that "th departmental appellate authorities do not work objectively and independently. They display a bias in favour of revenue." Some representatives also suggested that to ensure that the departmental authorities worked objectively and independently, they should be placed under the Ministry of law.

Commenting on these remarks, the Chairman, Central Board stated during evidence that "the suggestion that the departmental appellate authorities have got a bias against the assessee is not at all correct. We have given them full liberty to take decision on their own. Under Section 119 proviso, the Board is barred from issuing any instructions which are binding on the appellate authorities. In fact, we in the Board do want to scrupulously honour the independence of the appellate authorities. This can be seen from the fact that 73 per cent of the orders are either accepted by the Department or by the assessee. Only 22 per cent orders were taken up for further appeals. There can be cross appeals also. In the same case, there may be an appeal by the Assessee and by the Department also. If such cases are eliminated, it can be found that the percentage of appeals against the orders of the appellate authorities will be less than 22 per cent. This is the position all over India. "The Witness denied the charge that AACs tried to please the Department by giving favourable decisions.

Disposal of Cases by Income-tax Appellate Tribunals

3.18. The Ministry have informed the Committee that as on 31 March, 1980, 47,774 cases were pending with the Income-Tax Appellate Tribunals. The details of the number of appeals instituted and disposed of by the tribunals during the years 1977-78 to 1979-80 are given below:—

Year	Pendency; appeals at the beginning of the year.	Institution for the year	Disposal for the year	Pendency at the end of the year
(1)	(2)	(3)	(4)	(5)
1977-78 .	50619	47410	44276	53753
1978-79	53753	42169	47260	48662
1979-80	48662	42832	43720	47774

Cases pending before various Courts

3.19. According to the Ministry as on 31-3-1980, 22,563 cases relating to all direct taxes were pending before the Supreme Court, High Courts and other Courts (excluding Delhi). The period-wise break up of these cases is given below:—

Years	Supreme Court	High Court	Other Courts	Total
1	2	3	4	5
5 years . . .	191	2243	1530	3964
3 years .	418	4593	1381	6392
1 year .	492	6785	746	8022
6 Months	156	3856	173	4185

Setting up of a Central Tax Court

3.20. The Direct Tax Law Committee (1978) (Chokshi Committee) had recommended the establishment of a Central Tax Court with all India jurisdiction to deal exclusively with litigation under the direct

tax laws in the first instance, with provision for extending its functions to cover all other Central tax laws, if considered necessary, in the future. Such a court should be constituted under a separate statute. The Committee had also recommended that, in the meanwhile, the desirability of constituting special Tax Benches in the High Courts to deal with the large number of tax reference by continuous sitting throughout the year might be considered by Government. While a number of representatives of the Industry have supported the idea of a Central Tax Court as recommended by the Chokshi Committee, some non-officials have opined that the time is not ripe for setting up a Central Tax Court as the law in our country is still not stabilised and every year a number of amendments are being made in the tax laws. They have suggested that instead of constituting a Central Tax Court, more number of benches in the High Courts can be set up to clear the arrears.

3.21. The Ministry have informed the Committee (December 1980) that this recommendation of the Chokshi Committee was under consideration of the Government.

3.22. During evidence the representative of the Central Board informed the Committee that there were divergence of opinion among the various Committees and Commissions which had gone into this subject. Excepting the Chokshi Committee, other Committees and Commissions (Wanchoo Committee, the Law Commission, and the J.C. Shah Committee) did not favour the setting up of a separate tax court. Even countries like Canada, U.K., U.S.A., are not having such a court. The Wanchoo Committee had recommended that to clear the arrears the number of benches in the High Courts could be increased.

3.23. The Finance Secretary stated that "if the decisions of the Central Tax Court are final and the writ jurisdiction of the Supreme Court is owned, it will be extremely worthwhile to have such an institution. Otherwise, the assessees after they have gone to Central Tax Court will go the Supreme Court; some of the assessees adopt dilatory tactics." He added that "this is a serious matter involving a major policy issue which will have to be gone into carefully, because ultimately the Constitution will have to be amended."

3.24. The Income Tax Act provides for an elaborate heirarchy of appellate and revisionary authorities, namely Appellate Assistant Commissioners, (AACs) Commissioners of Income Tax (Appeals) (CITs) (A) Income Tax Appellate Tribunal, High Court and Supreme Court.

3.25. The Committee regret to note that departmental appellate Authorities viz., AACs and CITs(A) and CITs, have in no year been able to keep pace with the work load with the result that the number of pending appeals have been increasing from year to year. For example, the number of pending appeals with AACs increased from 2,22,899 at the end of 1977-78 to 3,05,201 at the end of 1979-80. Similarly the pendency of Appeals and revision petitions with CITs increased from 27,444 and 11,433 at the end of 1978-79 to 46,950 and 13,386 respectively at the end of 1979-80. Even reduced targets for disposal laid down by the Central Board for all these authorities have not been adhered to in the past and in fact the achievement have been far below the target. The Ministry have admitted that targets were "somewhat unrealistic" but, it is stated, "somewhat challenging" targets were laid down to stimulate the appellate authorities to dispose of maximum number of cases. While the Committee welcome the Central Board's approach to lay down "challenging" targets, it appears they have not succeeded in gearing up the system to enable the appellate authorities to rise to the occasion anywhere. The Committee would like the Central Board to review the position and devise a more practical approach which should be challenging as well as realistic and create a result oriented system to ensure disposal of appellate work according to planned targets. (Sl. No. 30).

3.26. An analysis of the pending appeals/revision petitions shows that about 2 years work load is pending with AACs, 15 months work load (revision petitions only) is lying accumulated with CITs and over 1 year's work is pending with Income-tax Appellate Tribunal. For disposing of arrears with AACs, the Central Board have evolved a norm that, at the end of the next four years, not more than six months work load should be pending with each AAC. The Committee feel that this norm should also apply to CITs, CITs(A) and Income-tax Appellate Tribunal. Their administrative sets-up and appellate procedures should be so re-organised that each one of these appellate authorities should be able to reduce the pendency to six months work load at the earliest. Needless to say, this would require constant monitoring and periodical review of achievements, which the Committee hope, the Central Board would do conscieutiously. (Sl. No. 31).

3.27. The Central Board have informed the Committee that they scrupulously honour the independence of the Departmental appellate authorities and that it is not correct to say that these authorities have a bias against assessees. The Committee, however, cannot help taking not of a general feeling of distrust among certain non-

official circles in the objectivity and independence of these authorities. The Committee would advise the Central Board to make every effort to dispel the suspicion of pro-revenue bias among assessees and restore their confidence in the fairness of departmental appellate procedures. (Sl. No. 32).

3.28. According to Government instructions an appellate authority, AAC or CIT(A), under orders of transfer, is required to pass final orders in cases which have been heard by him fully, before he hands over charge. From the representations made before the Committee, it appears that this is not being done by the appellate officers. The Committee would like the Central Board to ensure compliance of their very wholesome instructions in this regard to ensure that final decisions are given in fully heard appeal cases by appellate officers under transfer orders before they lay down charge. (Sl. No. 33).

3.29. The Committee note that 22,563 cases were pending in Supreme Court, High Court and other courts as on 31st March, 1980. Out of this number, 3964 were pending for more than 5 years and 6392 cases for 3—5 years. The Committee take note of the steps like special approaches to High Courts and Supreme Court taken by the Central Board to have the hearings expedited.

3.30. In the context of long delays in litigation under direct tax laws, the Chokshi Committee's proposal for establishment of a Central Tax Court with all India jurisdiction is worthy of serious consideration. The establishment of more benches of High Court would not be able to provide a final solution to the problem in as much as parties cannot be barred from going to Supreme Court in appeal against the High Courts nor can conflicting rulings be avoided.

3.31. In the Committee's opinion if time-consuming process of litigation in courts of various levels has to be avoided and Government dues collected without avoidable delay, there is no escape from setting up a Central Tax Court with exclusive jurisdiction and final say in tax matters. The Committee are aware of the constitutional difficulties but these are not insurmountable. The Committee would like the Government to take an early decision in the matter. (Sl. No. 34).

B. Settlement Commission

3.32. The Settlement Commission was set up w.e.f. 1-4-76. The Commission consists of a Chairman and two members and functions under the Department of Revenue. The Chairman and the other

members of the Commission are appointed by the Central Government. The Commission has four regional officers situated at New Delhi, Bombay, Calcutta and Madras.

Functions and Working of Commission . .

3.33. An assessee under certain conditions, may at any stage of any proceeding under the Income-tax Act, 1922/Income-tax Act, 1961/Wealth-tax Act for or in connection with assessment or reassessment in respect of any year or years which may be pending before the Income-tax/Wealth tax authority make an application in the prescribed form to the Commission to have the case settled.

On an application allowed by the Commission, the Commission requires the applicant to furnish a full and true statement of facts regarding the matters to be settled. On receipt of the statement of facts a copy is sent to the Commissioner calling for a report in the matter. The Commission after examining the statement of facts, report sent by the Commissioner and examination of the relevant records fixes up a hearing in which both the applicant as well as the Department are represented and thereafter passes such order in accordance with the provisions of Income-tax Wealth-tax Act, as it thinks fit on the matters covered by the application and any other matter relating to the case not covered by the application but referred to in the report of the Commissioner.

3.34. The final order passed by the Settlement Commission is conclusive and no matter covered by such order shall be reopened except in certain cases covered under Section 245 D(6) of the Act.

3.35. The details regarding the number of applications received and disposed of by the Settlement Commission during the last four years (*viz.* Financial Years 1976-77, 1977-78, 1978-79 and 1979-80, are given below:—

Financial Year	Number of applications pending of the beginning of the year	Number of applications received during the financial year	Total of 2 and 3	Number of applications disposed at during the financial year by final order	Number of applications pending for disposal at the financial year
1976-77 .	..	448	448	75	373
1977-78 .	373	550	923	245	678
1978-79 .	678	823	1501	257	1244
1979-80 .	1244	434	1678	271	1407

3.36. According to some non-officials at the present pace of disposal, the Commission may take a number of years to clear the pending cases as on date. They opined that if the number of benches of the Commission is increased the pace of disposal of cases by the Commission would improve. Commenting on this suggestion, the Ministry stated that "the opinion that if the number of benches of the Commission is increased, the pace of disposal of cases by Commission would improve is correct. However, for the formation of the benches in the Settlement Commission the provisions of Section 245B(2) have to be amended to the effect that the Settlement Commission shall consist of a Chairman and as many members as the Government may appoint from time to time. The consequential amendments will also be required in Section 245D(5) to provide that the applications before the Settlement Commission may be heard and disposed of by a bench of two members and in the case of difference of opinion the matter may be referred to one or more members and decided in accordance with the majority opinion."

3.37. From the figures furnished by the Ministry the Committee also noted that as on 31-3-1980, as many as 1407 applications were pending with the Settlement Commission out of which 98 were pending for more than 3 years, 282 for more than 2 years and 610 for more than a year. The Committee also noticed that while the rate of disposal of applications during the last 3 years (1977-78 to 1979-80) has been about 270 applications a year, the inflow has been ranging between 434 and 823. At this rate even if the fresh receipts are not taken into consideration the pending applications as on 31st March, 1980 above would take more than 5 years to clear. On the Committee enquiring about the steps taken to expedite the pace of disposal, the Chairman Central Board stated during evidence that "in 1976 this Settlement Commission came into existence. It is of recent origin. We are considering whether we can give more powers to Income-tax Commissioner under Section 273A, so that he can himself settle cases without reference to the Settlement Commission. These aspects are at present under our consideration."

3.38. The Settlement Commission was set up by the Government with effect from 1st April, 1976 to settle certain matters falling under Income-tax Act and Wealth-tax Act in accordance with the procedure prescribed therein. As on 31st March. 1980, 1407 applications were pending with the Commission, out of which 610 were pending for 1-2 years and 282 for 2 to 3 years and 98 for 3 to 5 years. At the present pace of disposal of about 270 cases per year. the Commission is likely to take over 5 years to clear the arrears alone.

And if the fresh intake of 430 to 820 applications every year is also taken into account the position would be worse.

3.39. The Committee regret to note that even though it was apparently right from the beginning (1976) that the Commission's capacity to dispose of cases was only a fraction of the intake, the Ministry took no tangible action to strengthen the Commission. The Committee would like that the consideration of various suggestion before the Government like increasing the strength and benches of the Commission and investing Commissioners of Income-tax with powers to settle cases without reference to Commission should be expedited and necessary steps taken without delay to strengthen the system to enable it to cope with the work. The Committee would recommend that in the case of the Settlement Commission also the norm of reducing the pendency to not more than six months work load by the end of the next four years should be adopted and structural and procedural re-organisation of the Commission brought about with this aim in view. (Sl. No. 38).

CHAPTER IV

TAX EVASION

A. Magnitude of Tax Evasion

The Ministry have informed the Committee that the Government have not made any assessment of the extent of tax evasion from time to time. Attempts were made by persons and authorities like Prof. Kaldor and the Wanchoo Committee to estimate the amount of unaccounted income and the tax lost through evasion in the Indian economy. Prof. Kaldor in his 'Indian Tax Reforms' estimated that as of 1952-53 the amount of Income-tax lost through tax evasion was probably of the order of Rs. 200—300 crores. Projecting these estimates to 1968-69 on the basis of the growth of national income from 1961-62 to 1968-69 the income on which tax was evaded for the year 1968-69 was estimated by the Wanchoo Committee at Rs. 1400 crores.

4.2. According to the Ministry "the estimates of both Prof. Kaldor and the Wanchoo Committee suffer from several serious limitations. They proceeded on the basis of national income statistics by industry of origin and estimated the amount of income liable to tax on the basis of certain assumptions which are open to question." The Ministry have added that "the Wanchoo Committee itself pointed out several limitations of the methodology adopted by it. In fact one of the Members of the Committee, Shri D. K. Rengnekar thought that the amount of unaccounted income for the year 1968-69 could be of the order of Rs. 2.800 crores, i.e., double the figure estimated by the Wanchoo Committee. It is thus extremely hazardous to attempt any estimate of black-money."

4.3. During evidence, the Committee enquired whether it was the contention of the Ministry that there was no expertise in the country to make an assessment of the tax evasion. The Finance Secretary replied that "we do not say that there is no expertise in the country to make an estimate of the kind which Dr. Kaldor attempted earlier or which the Wanchoo Committee attempted later. In fact following the methodology which Dr. Kaldor and Shri Wanchoo had followed it may be possible to work out or to arrive at an estimate of the income which has escaped taxation.

"....even if an estimate is arrived at it would be relevant only to the extent that it enables the Government to formulate appropriate policies and also initiate effective administrative action both in regard to curbing the generation of black money as also getting at the black money already generated into our economy."

"Nobody in this country disputes that evasion of tax is taking place to a very significant extent. It should be our constant endeavour to bring about the requisite changes in economic policies and also fiscal measures to see that this problem is countered effectively."

"All that I was submitting is that it is not possible to arrive at an estimate of the extent of black money. It is very difficult however much one would like to make an estimate of what the black-money in the economy is. Whether we follow the Wanchoo Committee methodology or any other methodology whatever figure we may arrive at will still be questionable." The Economic Adviser to the Ministry explained that "there is no question that we have expertise in India to make estimates but the range of estimates that we get will be comparatively large because there is no established methodology as to how to measure black-money."

He added that:—

> "From all the information we have we will not be able to get particularly precise or refined estimate and certainly the range of variation in different estimates made by reputable experts would be quite variable. In any case for the purpose of improving tax administration we should study the methods by which black-money is generated and the ways in which this generation can be reduced and brought under the tax system."

4.4. In the context of the need to make an assessment of the extent of black-money, the Committee are informed that the estimates of black-money made by Prof. Kaldor (1952-53) and the Wanchoo Committee (1971) suffered from serious limitations as the methodology adopted by them was open to question. In the Ministry's opinion it is very difficult to make a precise or refined estimate of the extent of black-money, however much one would like to make an estimate of such money.

4.5. The Committee wish it were possible to make a reasonable estimate of black-money, as such an estimate will no doubt enable

the Government to formulate more appropriate policies and take more effective administrative measures to curb the generation and use of black-money to save the economy from its pernicious role and minimise inflation in the country. (Sl. No. 36)

B. Steps taken to check Tax Evasion

4.6. The Ministry have informed the Committee that the following steps have been taken by the Department to check tax evasion.

(i) The methods adopted for tax evasion by assessees in various spheres of business/trading/commercial activity are intensively scrutinised and measures taken to counter such evasion.

(ii) Officers and field formations are kept informed of the *modus operandi* adopted for tax evasion by the tax payers from time to time which is circulated to all officers of the Department.

(iii) A book entitled 'Investigation of Accounts' covering the various 'techniques' used by assessees in different trades/industries and how these techniques can be countered, has been published and supplied to officers for their use.

(iv) A special Cell of Investigation has been set up to study in depth, problems of tax evasion thrown up by large industrial houses. The results of these studies are formulated in papers which are forwarded to the concerned officers. Information is periodically exchanged between the various revenue enforcement agencies. There are co-ordination Committees at Regional level, consisting of Senior Officers of agencies. Whenever necessary the sales tax authorities and CBI authorities are also associated with exchange of such information.

47. The Ministry have informed the Committee that in the course of survey operations to identify new assessees information from a number of sources like Register of Companies, financial institutions, Municipal authorities, Imports and Export offices, luxury hotels, and Sales Tax and other departments of State Governments is being collected and collected by the Central Information Branch of the Department and passed on to assessing officers for taking further action. When asked whether it was mandatory for the aforesaid sources to furnish the desired information, the Ministry have stated that there are no statutory provisions which make it mandatory for the authorities referred to, to furnish the listed information to the Income-tax Department.

4.8. The information is, however, collected from all such sources by the Income-tax Department through its Inspectors on an informal basis and their requests are generally complied with by other Departments.

During evidence the representative of the Central Board stated that "there is a specific provision in the law, Section 136(6) of the Income-tax Act whereunder the ITO can require any person including a banking company to furnish information in respect of any proceedings initiated under the Income-tax Act. This is, no doubt, a specific provision, not a general provision. I submit that it would be helpful if there is a statutory provision requiring the various authorities to furnish the desired information, to the Income-tax Department".

4.9. During evidence, the representative of the Central Board also informed the Committee that "we are having a review of the working of the Central Information Branch to see how and to what extent the information collected is utilised by the ITO in making the assessments. It is primarily lack of man-power that is responsible for not fully utilising the information."

4.10. During Survey Operations to identify new assessees, the Income-tax Department collect information from a number of sources like the Registrar of Companies, imports and exports offices, luxury hotels, Sales Tax Department Municipal authorities etc., and pass it on to assessing officers for further action. The Committee find that there is no provision which makes it mandatory for the various authorities to furnish the desired information to the Income-tax Department. The Central Board feel it would be helpful if such a statutory provision is made. Now when the need for a statutory provision in this regard has been accepted, the Committee would expect the Government to initiate action to make a suitable provision in the Income-tax Act as early as possible. (Sl. No. 37)

4.11 The Ministry have admitted that the information collected by the Central Information Branch of Income-tax Department from various authorities is not being made full use of due to shortage of manpower. What else can the Committee conclude from this except that the manpower deployed and expenditure incurred on collection of this information have been a waste and that the Department have been remiss in discharging the statutory obligation of processing this information. The Committee would like the Central Board to

review the working of the Central Information Branch and the assessing officers and take measures without any further delay to ensure that all relevant information is regularly and systematically collected and disseminated to assessing officers and made full use of by them. In this arrangement a specific responsibility should be cast on the supervisory officers to make sample checks and take corrective measures. The Committee would like to be apprised of the action taken in the matter. (Sl. No. 38)

Collection of information—Reg. Lavish parties

4.12 Section 133A of the Income-tax Act was amended *w.e.f.* 1st October, 1975. The amended Section provides for surprised checks of lavish expenditure on parties/marriages etc., by the field staff of Income-tax Department. The object of this provision is to help collecting evidence about ostentatious expenditure immediately after the event to be used at the time of the assessment.

4.13. The Ministry have stated that "this power has not been used extensively mainly because of pre-occupation with other work and inadequate manpower. Moreover, since this is relatively a new provision, many officers might not have been aware of its usefulness. The Ministry no doubt, feel that this provision is an effective tool in the hands of the Income-tax Department to curb ostentatious expenditure. The Board has, therefore, *vide* its Circular dated the 26th September, 1980 directed the Commissioners of Income-tax that the field officers should be asked to make increasing use of these powers."

4.14. The Chairman, Central Board stated during evidence that "I must admit that our field staff have not been making proper use of this power given by the Parliament only recently. We have addressed letters to the Commissioners bringing to their notice the powers which have been given and asked them to make use of it. This work has been entrusted to the intelligence set-up for collecting the information."

4.15. Section 133A of Income-tax Act was amended in 1975 to provide for surprise checks of lavish expenditure on parties/marriages. The main objective of this provision was to collect evidence about ostentatious expenditure immediately after the event to be used at the time of assessment. The Ministry have admitted that this power has not been extensively used by field officers. The Committee are surprised at the Ministry's explanation that "since this is a relatively new provision, many officers might not have been aware of its usefulness."

4.16. The Committee cannot but hold the Department fully responsible for not bringing this "effective tool" for curbing ostentatious expenditure to the notice of field staff and deplore the Department's failure to discharge this elementary duty. The Committee would urge that full and judicious use of the powers under Section 133A be made by field staff and monitored at appropriate levels and information collected during surprise checks of lavish expenditure on parties etc., be used at the time of assessment.

Auditing of accounts:

4.17. Section 142(2A) of the Income-tax Act provides that if, at any stage of the proceedings before him, the Income-tax officer, having regard to the nature and complexity of the accounts of the assessee and the interest of the revenue, is of the opinion that it is necessary so to do, he may, with the previous approval of the Commissioner of Income-tax, direct the assessee to get the accounts audited by an accountant nominated by the Commissioner in this behalf and to furnish a report of such audit in the prescribed form.

4.18. The representative of the Central Board, admitted during evidence that "this power has not been utilised to the extent to which it should have been utilised in the past. This provision was introduced with effect from 1-4-1976. We had asked the Commissioners to draw up a panel of accountants with known integrity and having good practices and also we had given them guidelines of the cases which were to be referred under this section for compulsory audit. This was done in July 1977. They took some time in drawing up the panels." The witness added that during the last three years, only 16 cases were referred for compulsory audit in various Commissioners charges.

4.19. The Committee regret to note that a wholesome provision made for referring certain accounts for compulsory audit by auditors to be nominated by Commissioners, under Section 142(2A) of the Income Tax Act w.e.f. 1st April, 1976 has not been utilised to the extent to which it should have been utilised. During the last 3 years only 16 cases were referred for compulsory audit under this power. The Committee recommended that all preparatory work to give effect to this provision should be completed without any further delay and the power of compulsory audit used in all cases where it is necessary to do so in the interest of revenue. (Sl. No. 40).

Mentioning permanent account number in high value transactions

4.20. It was suggested to the Committee that it would be desirable to specify in the Income Tax Act that for high value transactions, the Permanent Account Number (PAN) is introduced.

Permanent Account Number should be used for cross checking important transactions like issue of import licences, various permits, major contracts, mining and other leases etc. Similarly persons making deposits with companies should be required to indicate their PANs, if they have any.

4.21. The Ministry have stated that "the Board agree that much more use can be made of Permanent Account Numbers for cross checking a variety of transactions. But before introducing this, the administrative implications will have to be studied and the opinion of the public to be ascertained and studied. The Chairman Central Board, stated during evidence that "quoting the Permanent Account Number in transactions will be useful but at the same time we feel there are certain administrative implications..... if the advantages outweigh the difficulties which we anticipate, definitely we will implement."

4.22. After evidence, the Ministry have informed the Committee (Feb. 81) that:—

The Central Board have examined the matter and they feel that while the suggestion is undoubtedly well conceived it may be difficult, for the reasons stated hereafter, to give an effect to the same.

Clause (c) of sub-section (5) of Section 139A makes it obligatory for the person who has been allotted a Permanent Account Number to quote the said number in all documents pertaining to such transactions as may be prescribed by the Board in the interest of revenue. Sub-section (6) of Section 139A empowers the Board to make rules providing for, inter-alia, the categories of transactions in relation to which PANs shall be quoted by the persons to whom such numbers have been allotted in the documents pertaining to such transactions. These sections came into force w.e.f. 1st April, 1972.

The Board have not yet prescribed any transactions where PANs have to be quoted by the person who have been allotted such PAN. They have already taken up the

exercise and the entire issue is being examined in consultation with the Commissioners. To begin with the Commissioners. To begin with the number of such transactions have to be commensurate with the machinery at the disposal of the Department for their proper scrutiny and utilisation at the time of assessment.

More prescription u/s 139A(6) is not likely to serve any useful purpose unless there is coordination at three levels namely:—

(a) There is proper identification of the person to whom Permanent Account Numbers have been allotted i.e. he quotes the correct PAN in the documents evidencing the transaction.

(b) There is proper machinery for transmission of those transactions to the Income-tax Department either voluntarily or through compulsion by law; and

(c) The scrutiny of the information received by the departmental officers.

In the context of (a) above the Board may have to examine the feasibility of issuing identity cards while alloting PAN and making it obligatory on the parties to produce this identity card while entering into transactions. How far this will be acceptable to the assessees will also have to be examined. Similarly, the allotment of a Permanent Account Number may not deter an assessee to enter into transactions in the name of somebody else.

Permanent Account Number system was introduced so that huge masses of information could be cross verified by computerisation for which purpose identifying numbers were necessary. Such computerisation has not taken place and in the meantime the manual handling of information has not been very satisfactory.

While these are some of the practical difficulties the question of utilising PAN in the interest of revenue as well as prescribing individual transactions u/s 139(5)(c) of the Income-tax Act are engaging the attention of the Board.

4.23. The system of Permanent Account Number was introduced with a view to identifying the assessees and the transactions with which they are associated. Though this provision was introduced

as far back as 1972 and gave powers to the Central Board (Section 139A(s) & (b) to specify the transactions in which PANs will be quoted by assessees, the Committee find that the Central Board have not so far specified the categories of transactions in relation to which PANs have to be quoted by them compulsorily. The Central Board and the Ministry acknowledge the usefulness of compulsory mentioning of PANs in high value transactions but, because of certain administrative implications, they are afraid of introducing the new procedure. The matter is stated to be still under the consideration of the Board. ... .

4.24. The Committee have gone into the administrative implications apprehended by the Central Board. They are constrained to observe that the Board are unnecessarily magnifying the difficulties out of proportion. It is a wholesome provision which will go a long way in helping the Department to identify persons who enter into high value transactions but are not on the registers of the Income Tax Department. Persons giving wrong PANS will attract the presumption that they have done something wrong and they have something to hide, thus providing sufficient evidence to the Department to proceed further in the matter.

4.25. The Committee strongly feel that the Central Board should not vaccilate any longer, and invoke the powers vested in them under Section 139A(5) &(6) and specify the transactions in which it will be compulsory for the persons to quote their Permanent Account Numbers. Simultaneously, the Board should make adequate administrative arrangements, to collect information about and to make random checking of such transactions with a view to detecting cases of tax evasion. Needless to say, the Board will have to make arrangements for allotment of PANs at short notice to new parties, who may be entering into high value transactions for the first time before being registered as income tax assessees.

(Serial No. 41)

Selft-employed professionals

4.26. According to the information furnished by the Ministry, the number of professionals on the G.I.R. of the Income-tax Depart-

ment in 10* Commissioners of Income-tax charges as on 31st March, 1976 were as follows:—

Doctors .	48,577
Lowyers . .	34,596
Chartered Accountants	8,614
Engineers	5,039
Architects . . .	1,727
TOTAL :	98553

Information for the subsequent years is stated to be not available in the Ministry. But according to the All India Income-tax Statistics 1977—78, (published by the Directorate of Inspection. Central Board of Direct Taxes) only 18,389 self-employed professionals were assessed for income-tax purposes in 1977-78 as per details given below:—

Professionlas Cotegory-wise including Companies and Non-companies)	No. of Assessments
1. Education and teaching services	318
2. Literature, art and journalism	502
3. Medical & Health services	11,636
4. Film production and allied services	2,030
5. Music, drama and recreational services	388
6. Legal services . . .	1,454
7. Architects, surveyors and engineers	761
8. Accountants, auditors and actuatries	106
9. Others .	1,194
TOTAL :	18,389

(Table 4 All India Income-tax Statistics 1977-78)

*Bombay, West Bengal, Delhi, A.P., Kanpur, Lucknow, Tamil Nadu, Poona, Bihar, Karnataka.

4.27. A number of non-officials have opined that the number of self-employed professionals with taxable income in the country would be much larger. Even a non-official while giving evidence before the Committee stated that a number of self-employed professionals are indulging in tax evasion. Following suggestions have been received from non-officials to bring all self-employed professionals (Doctors, Lawyers, Chartered Accountants real estate agents, brokers etc.) having income beyond the tax exemption limit, within the tax net:—

(1) The Department should obtain lists of professionals from the respective professional bodies like Bar Councils, Institute of Chartered Accountants etc. All localities should be visited by survey teams, and street by street list of professionals drawn up, for check against the list of Income-tax payers, to ascertain whether they are paying Income-tax or not.

(2) If doctors, private clinics, Nursing Homes and medical shops in an area are assessed to tax by the same officer, it should not be difficult for him to check the cases of the doctors with references to the books of the clinics, nursing homes and medical shops.

(3) Each Income-tax Officer should have a complete and continually up-dated list of all professionals in his jurisdiction. The Department should send a polite and friendly letter to all newcomers to the profession (newly registered or transferred from elsewhere) telling them of the importance of maintaining accounts from the beginning and explaining under what conditions they would become liable to submit returns and pay tax. They may be advised to keep a record of their annual incomes and savings, even if not liable to tax for the time being, so that they might be in a position to explain their accumulation if asked at a later date.

(4) "Self-employed" professionals should be required to register themselves with the Income-tax Department when they start private practice. After an interval of some years, and thereafter periodically they should be asked to declare that their annual income does not exceed taxable limit.

(5) Companies and institutions should be required to deduct tax from the fees paid by them to doctors, solicitors,

lawyers and other professionals when the fees exceed Rs, 2,000 or Rs. 3,000 in a year.

4.28. The comments of the Ministry on those suggestions (point-wise) are:—

(i) The Department have intensified the survey operations and an organisation to undertake survey on a continued basis has been built up. This has been done with a view to ensure that all persons whose income is above the taxable limit should be brought within the tax net. This will automatically cover the professionals like lawyers, doctors, etc. also. The Department have been from time to time obtaining lists of professionals from professional organisations, like, Regional Institutes of Chartered Accountants, Bar Council, Income-tax practitioners associations etc. and have been verifying whether the members belonging to these professions are assessed to tax. This can be made an integral part of the survey operation. Similarly in many charges reported cases are scrutinised for the purpose of verifying whether the advocates who appeared in those cases are accounting for their receipts in respect of these cases. However, this can be made an integral part of our survey operations.

(ii) In some of the metropolitan cities the Department have exclusive Income-tax Officers for particular categories of professionals, for example, the ITO (Doctor's Circles), the ITO (Lawyer's Circles) etc. The question of conferring jurisdiction over medical shops to such circles will be considered.

(iii) The suggestions appear to be useful, and will be implemented.

(iv) The suggestion will be considered.

4.29. As a measure to check tax evasion and as an incentive to promote voluntary compliance, some non-officials suggested to the Committee that there should be differential rates of income-tax. The professionals, including salaried class, should have a lower rate of taxation than the businessmen. The need for adopting such a differential rate structure was also felt in some official circles.

Maintenance of Accounts by Professionals:

4.30. Section 44AA of the Income-tax Act as inserted by the Taxation Laws (Amendment) Act, 1975, provides for compulsory

maintenance of accounts by certain categories of taxpayers. It has been provided that all taxpayers carrying on the profession of law, medicine, engineering, architecture, accountancy, technical consultancy or interior decoration or any other profession that may be notified by the Board shall maintain such books of accounts and other documents as may enable the Income-tax Officer to compute their total income under the Income-tax Act. The Board have notified the professions of authorised representative and film artist in pursuance of this provision. In the case of a person engaged in business, or a profession other than those referred to above, the requirement of maintenance of accounts is applicable only if the income or turnover from such business or profession exceeds certain limits prescribed in the Act.

4.31. Under sub-section (3) of section 44AA, the Board have been empowered to prescribe by rules the books of accounts and other documents to be kept and maintained having regard to the nature of the business or profession carried on by any class of persons and the form and the manner in which and the place at which they shall be so kept and maintained.

During evidence the Committee were informed that:—

(i) The Board set up a committee of senior officers to go into the question of framing rules under this provision. In pursuance of the report of this committee, draft rules were issued on 12 January, 1977 and comments from those assessees who were likely to be affected thereby were solicited.

(ii) In the meantime there was change in the Government and the new Government appointed the Direct Tax Laws Committee (Chokshi Committee).

(iii) The Chokshi Committee said that the draft rules were a little too elaborate and they should be simple.

(iv) This Committee in its Final Report (September, 1978) recommended as under:—

"Persons carrying on a profession should be required to maintain only certain basic records such as a professional case diary, a fee register, a cash book (which may not necessarily be balanced daily), a journal, if

the accounts are maintained on mercantile basis, and a ledger. In conjunction with the bank pass book, etc., these records should provide quite sufficient material for the computation of their income for purposes of assessment."

(v) The scheme of this section is that the Central Board either prescribe by rules what books of account or documents are to be maintained by a professional or a businessman, or leave it to the businessman to maintain such books of account as will enable the Income-tax Officer to determine the businessman's income that he derives from his business. In case we have to make some rules, the list of the books of accounts and documents has got to be exhaustive as otherwise according to the law itself they have to maintain proper books of account.

(vi) The recommendations of the Chokshi Committee are still under consideration of the Government.

4.32. The Ministry of Finance have furnished two sets of statistics about the professionals (doctors, lawyers, accountants etc.) who are paying income tax according to their records. According to the figures published in All India Income-tax Statistics (1977-78), only 18,389 self-employed professionals were assessed to income-tax in 1977-78. But according to the figures separately furnished by the Ministry, the number of Doctors. Lawyers, Chartered Accountants, Engineers and Architects on the Income-tax registers were 98,553 as on 31st March, 1976 (in 10 charges only). The Committee do not know which statistics to accept. The Committee would like the Ministry to reconcile the two figures so as to have a clearer picture of the magnitude of self-employed professionals without which it will be difficult for them as well as for the Committee to have any idea about the extent of tax evasion among this class.

4.33. There is a general feeling in various quarters that not all the self-employed professionals pay income-tax or pay full income-tax on their entire income. In fact if the figures given in All India Income-tax Statistics are correct, that is if only 18,389 professionals were assessed to income tax in 1977-78, then it is obvious that a large section of self-employed professionals are outside the tax net.

4.34. The Committee have considered many suggestions received from non-officials to bring the self-employed professionals like doctors, lawyers, chartered accountants, real estate agents, brokers,

etc., within the tax net. The suggestions in the succeeding papers have weight and are practical and can go a long way in helping the Department bring the non-tax-paying self-employed professionals within the tax net.

4.35. The Income-tax Department should obtain lists of professionals from the respective professional bodies like Bar Councils, regional Institutes of Chartered Accountants, etc. Lists may also be collected by visits to various localities. All such lists should then be compared with the lists of income-tax payers available with the Department to ascertain whether all of them are paying income-tax or not. The Department it is stated, have made some efforts in this direction from time to time. The Committee would, however, like that approach of this nature should become a regular and integral part of the survey operations which are carried out from year to year.. (Sl. No. 42)

4.36. In some of the metropolitan cities, the Department have exclusive Income-tax Officers for particular categories of professionals like doctors, lawyers, etc. The Committee would suggest that this practice may be extended to all big cities and an ITO dealing with a certain category of professionals in a particular area should have the jurisdiction to deal with all these persons, institutions and enterprises which might broadly be connected with that particular category of professionals. For example, all the doctors, private clinics, nursing homes and medical shops in an area, should be assessed by the same Income-tax Officer. (Sl. No. 43)

4.37. The Committee feel that there is great merit in the suggestion that all newcomers to the profession (newly registered or transferred from elsewhere) should be required to notify their names and addresses to the Income tax Department when they start private practice. The Department should immediately advise them to maintain accounts of income and savings and other relevant records right from the beginning and explain to them under what conditions they will become liable to pay income-tax. At periodical intervals, the Department should ask them to declare that their annual income does not exceed limit. (Sl. No. 44)

4.38. The Committee also feel that the companies and institutions which employ the services of professionals like doctors, lawyers, etc., should be required to deduct tax from the fees paid to these professionals when the fees payable in any year exceed a certain limit, say Rs. 23,000/-.

4.39. The Committee are surprised to find that even though. Section 44-AA of the Income-tax Act, as inserted by the Taxation Laws (Amendment) Act, 1975 provides for compulsory maintenance of accounts by certain categories of professionals and empowers the Board to specify the books of account and other documents that should be maintained by them to enable the Income-tax Officer to compute their annual income, the Income-tax Department have not exercised this power and have not laid down the nature of books and records that they should maintain. The Department have tried to explain as to why this power has not been exercised so far but the Committee are not satisfied with the explanation.

4.40. Now when the Chokshi Committee have also made certain recommendations as to the nature of records which the professionals should maintain, the Committee would like the Central Board not to lose any more time to exercise the powers under Section 44-AA and specify the books of account, etc., which should be maintained by self-employed professionals with suitable provision to guard against hardship to new entrants in the profession. (Sl. No. 46)

4.41. Need for prescribing differential rates of income-tax for businessmen, self-employed professionals and salaried class has been expressed before the Committee by officials and non-officials alike. This approach, it was stated, will curb the tendency among professionals and salaried class also having income from other sources to evade tax. The Committee feel that it is not quite rational to place the same level of tax burden on professional/salaried class with limited incomes and fixed span of active life as that placed on business class. The Committee would recommend a dispassionate examination of this matter. (Sl. No. 47)

Other Measures for Checking Tax Evasion

4.42. During the course of the examination of the subject a number of other suggestions for checking tax evasion in general were received by the Committee.

Suggestions	*Ministry's Comments* .
1. Each acquisition of moveable property (e. g. Car, air-conditioner, diamond, golden jewellery, furnitures, carpets etc) of the value of Rs. five thousand and above should be required to be included by the buyer in his income-tax return.	1. Not necessary to statutorily enforce the inclusion of such details. ITO has powers to call such details in appropriate cases.

Suggestion	*Ministries' Comments*
Where the sale/purchase requires to be registered with a publicity authority (like in the case of car) it should, like the immovable property, be communicated by the registering authority to the Income tax Deptt.	
2. Each transaction involving payment of amount above a certain level (say Rs. 2—3,000) should be through cheque and not in cash.	2. There are practical difficulties in implementing this suggestion. Persons not having bank account may face difficulties.
3. Possession of cash/currency notce s of a value higher than a flexible limit to be specified say, *annual* income of a person, or Rs. 10,000 (9 or so), whichever is a higher, should be deemed to be an offence except when it is intended for functions like marriage etc. in the immediate future.	3. The suggestion Cells for detailed examination.
4. Companies and institutions should deduct tax from rent payments exceeding Rs. 10,000 a year.	4. The suggestion will be considered.

4.43. The Committee have received a number of other suggestions for checking tax evasion in general of which the following merit and in-depth study:—

(1) Each acquisition of moveable property of the value of Rs. 5,000 and above should be required to be included in the Income-tax return.

(2) Where the sale/purchase of movable property requires to be registered with public authority as in the case of motor-cars, it should be communicated by the registering authority to the Income-tax Department like the immovable property.

(3) Each transaction involving payment of a high amount say Rs. two to three thousand should be through cheque.

(4) Possession of such cash/currency notes of a value higher a flexible limit to be specified, say, annual income of a person or so, should be deemed to be an offence except in certain special circumstances.

(5) Companies and institutions should deduct tax from rent payments exceeding Rs. 10,000 a year.

4.44. The Committee would not like these suggestions to be lightly brushed aside just because they at first sight appear to be difficult to implement or are likely to pose some problems in implementation. They would like the Department to study them in depth and see whether and to what extent they can in the present form or in a refined form be implemented with a view to curbing tax evasion. (Sl. No. 48)

C. New Assessees—Survey operations

4.45. Income-tax Department identify new assessees, through "Survey". Survey is an integrated operation involving tapping and utilisation of information from external and internal sources. The objects of survey are (i) to bring into tax register all the persons liable to tax and (ii) to collect relavant information from various sources with a view to detecting evasion of tax. It is a continuous activity in pursuit of this object and includes door to door survey of all premises in various localities and collection of information from various sources.

4.46. The Survey operations have been intensified in the recent past and a permanent organisation to undertake surveys on a continuing basis has now been built up. In this connection 500 additional posts of Inspectors have been recently sanctioned for survey. The Commissioners of Income-tax have been directed to utilise these Inspectors exclusively for survey so that the survey operations can be conducted effectively. The internal survey work relating to collection, collation and dissemination of Information is looked after by the Central Information Branch.

4.47. The number of new assessees discovered through survey operations and or to whom notices for assessment/reassessment were issued during the last three years is as under:—

Year	Number
1977-78	63,656
1978-79	53,608
1979-80	81.746

4.48. At the instance of the Committee, the Ministry furnished the following statement indicating the demands raised in cases detected as a result of survey and the annual estimated expenditure incurred on the Inspectors deployed for survey work during the year 1977-78 to 1979-80.

Financial Year	Demand raised (income-tax Rs. in thousands)	Demand raised (Wealth tax Rs. in thousands)	Total demand raised (Rs. in thousands).	Total estimated expenditure on Inspectors. (Rs. in thousands)
1977-78 .	6,34,21	14,91	4,49,12	71,00
1978-79 .	5,84,90	33,44	6,18,34	78,00
1979-80	5,70,85	20,83	5,91,68	96,00

The amounts collected against the above demands in the financial year 1979-80 were:—

(Rs. in thousands)

Income-tax . . .	32,211
Wealth-tax	1,310

The Ministry have also stated that no scientific cost benefit analysis of survey operations had been made.

4.49. From the information furnished by the Ministry the Committee noticed that the average output of Inspectors per day in respect of premises surveyed etc. was only 1.38 during the month of April, 1979. This performance was held to be "extremely poor" by the Member (Investigation) of the Central Board of Direct Taxes, in a letter addressed to the Commissioners in August, 1979.

4.50. During evidence, the Committee enquired whether the Deptt. had laid down any norms in this regard. The representative of the Central Board informed the Committee that during 1979-80, the average number of premises surveyed per day per inspector had gone up to 2.3 per day. He added that the Central Board had recently fixed norms as follows:—

(i) In metropolitan cities and big towns, 15 business premises per day and 5 new constructions in residential areas per day.

(ii) In mofussil areas 10 major premises per day and 3 new constructions per day.

4.51. On an enquiry when these norms were fixed and when the instructions to the Commissioners were issued, the Chairman Central Board informed the Committee that these norms were approved in March 1980, but instructions to the Director of Inspection (Income Tax & Audit) were issued by the Board only in January 1981.

4.52. The Income-tax Department conduct survey operations to bring into tax register all the persons liable to tax and to collect relevant information from various sources with a view to detecting tax evasion. The survey operations, it is stated, have been intensified recently and the set up was re-organised and put on a permanent footing.

Seeing the work norms now fixed for survey Inspectors at 15 business premises a day and 5 new constructions in residential areas in big cities and 10 major premises and three new constructions per day in mofussil areas, the Committee cannot but conclude that the Inspectors' output was woefully low in 1979-80 when they surveyed only 2.3 premises per day on an average. The Committee are surprised to note that though the new norms were approved in March, 1980, instructions to this effect were issued by the Department only in January, 1981. The Committee feel that the survey operations have tremendous potential to bring new assessees within the income-tax net. Raising daily output from 2.3 premises in 1979-80 to over 15 in big towns and 0 in mofussil areas in 1981 is a big jump upwards. What is to be seen is whether these new norms are actually observed by the inspectors in day-to-day working and how seriously they go about their work. The Committee would like the Department to monitor the performance of Inspectors individually and survey organisation as a whole and ensure that the results expected of them are forthcoming. (Sl. No. 49)

4.53. The demand raised in cases detected as a result of survey operations in 1979-80 (when average output of an Inspector was 2.3 premises per day) was Rs. 5.92 crores, out of which a sum of Rs. 3.35 crores has been collected. The Committee hope that as a result of increase in work norms, the benefits accruing from survey operations would correspondingly go up. The Committee would like the Department to make a cost benefit study of the survey organisation from year to year to have a clear picture of the success of their operations vis-a-vis **the expenditure incurred on them.** (Sl. No. 50)

D. Intelligence Wing

4.54. The Intelligence Wing of the Department performs the following functions:—

(a) Collection of information regarding tax evasion.

(b) assisting the Commissioners of Income-tax in organising the search and seizure operations.

(c) processing fraud cases for prosecution.

4.55. According to the Ministry the "Intelligence Units have been successful in unearthing many rackets involving substantial tax evasion and in launching prosecution in a number of cases." The number of searches and the value of assets seized during the years 1975—76 to 1979—80 by the Income-tax Department is as under:—

Year	No. of	Value of assets seized (Rs. in lacs
1975-76 .	2,635	2,135
1976-77 .	3,511	2,044
1977-78 .	617	353
1978-79 .	1,345	512
1979-80	2,109	1214,68

Evaluation of the Intelligence Wing

4.56. When asked whether the decline in the value of assets seized during the last five years did not indicate that the Intelligence Wings activities were becoming less fruitful or that information about the searches was leaking out in advance in more and more cases, the Ministry had stated that it would not be correct to come to this conclusion.

4.57. In reply to another question as to whether any cost benefit analysis of the working of Intelligence Wing had been made, the

Ministry stated that expenditure on the Intelligence Wing is a very small fraction of the total expenditure incurred by the Department and that no separate cost benefit analysis had been made. Such an analysis according to the Ministry is also difficult since all the benefits accruing from the expenditure of the Intelligence Wings cannot be measured.

4.58. The Chairman, Central Board stated in evidence that "the expenditure on Intelligence Wing is approximately Rs. 1 crore every year. As against that, we will have to consider what are the benefits. The value of the assets seized is Rs. 21 crores in one year, Rs. 20 crores in another year and in 1977-78 when the raids were reduced, it came to Rs. 3.53 crores and Rs. 5.12 crores next year, and Rs. 12.15 crores last year. We should not compare the expenditure with only the value of the assets seized because we do got quite a lot of incriminating documents showing concealed income. That has also to be borne in mind and then the deterrent effect of the Intelligence Wing, the fact that we are having the Intelligence Wing in our Department and its effect will have to be borne in mind. One more aspect is that the Voluntary Disclosures Scheme was a success mainly because of the existence of the Intelligence Wing. Many raids were conducted before the Voluntary Disclosure Scheme was announced. Taking all these aspects into consideration, the Intelligence Wing will definately be found to be very useful."

Searches and Seizures

4.59. The Ministry have informed the Committee that the Statistics relating to penalty for concealment levied in search and seizure cases, and the amount collected there from, are not separately maintained by the Department. In reply to a query by the Committee, the Ministry have, however, admitted that there is no denying however, that "a more meaningful analysis of the impact of search operations will be possible if such statistics are separately maintain but in views of the fact that the officers have to maintain statistics to a large extent on several aspects of their work and in view of the very limited manpower available at their disposal, it has to be examined whether the suggestion of the Honourable Estimates Committee can be implemented without any difficulty."

4.60. During evidence, the Chairman, Central Board informed the Committee that "with effect from May, 1980 we have prescribed progress reports which will contain the statistics which the Estimates Committee wanted. We have got a monthly progress report of the

intelligence wing which shows the concealment detected in case of search. Similarly another monthly progress report prescribed is M-e24. We have also got a quarterly control chart which gives information about particulars of individual searches."

4.61. A number of non-officials represented to the Committee that the Department resort to searches and seizures indiscriminately resulting in harassment to the assessees. It was stated by the Ministry that during 1977-78, 1978-79 and 1979-80, the number of searches and seizures conducted were 617, 1345 and 2109 respectively but "no separate statistics regarding the number of cases in which unaccounted assets were found and the number of unsuccessful searches etc. are maintained."

4.62. During evidence, the Committee enquired how in the absence of such data, the Ministry could contend that they did not resort to indiscriminate searches. The Chairman, Central Board replied that "we have recently prescribed (certain) forms and we would be able to find it out." Subsequently (Feb. 1981), the Ministry have informed the Committee that "authorisation of search by competent authority is issued after giving a very careful consideration to the facts and circumstances of each case, such as credibility and nature of the information received, Departmental records, the quantum of concealment expected to be uncovered as a result of search etc. The competent authority in addition to the above also direct, where they are not prima facie satisfied about the credibility of the information, discreet enquiries through the intelligence staff regarding the appropriateness for authorising a search." The Ministry have added that "it is in this background that the Department is in a position to say that it does not resort to indiscriminate searches for unearthing tax evasion. However, this is not to say that every search operation results in success. In spite of the care taken before authorising a search, the hopes of discovering concealed income/wealth through such search may not fructify. The propriety of a search cannot be judged with reference to the results achieved alone but should be judged with reference to the considerations given and care exercised before authorising a search."

Prosecution

4.63. The Ministry have furnished the following statement indicating the number of prosecutions launched, number of cases de-

cided by the Courts and number of convictions obtained during the years 1975-76 to 1979-80.

Statement of cases of Technical/Non Technical offences decided by the Trial Courts from 1975-76 *onwards.*

Year	No. of Prosecutions launched		Total No. of cases decided by the court		No. of cases convicted.		No. of cases acquitted
	Technical	Non-Technical	Technical	Non-technical	Technical	Non technical	Non-technical
1975-76	303	111	21	42	11	15	6
1976-77	275	283	18	39		13	10
1977-68	565	132	45	50	14	13	13
1978-79	904	118	12	37		17	12
1979-80	620	116	34	97	2	29	26
TOTAL . .	2667	760	130	265	27	87	67

4.64. According to a press report (1-10-1980 in a Delhi paper) "there is an unusual delay in dealing with the cases of Income-tax default by the Intelligence Wing of Income-tax Department. There are instances where the raids were conducted on commercial establishments for evading the payment of Income-tax several years ago and incriminating documents siezed but no action has yet been contemplated."

4.65. Commenting on this, the Ministry have stated that "the Intelligence Wings cover cases where normally big tax evasion is suspected. During the course of searches a large volume of books and documents apart from cash, jewellery etc. are seized. Those cases have very wide ramifications and, therefore, require thorough and time consuming investigation and detailed scrutiny. Besides, it is the experience of the Department that in such cases there is a tendency among the affected persons to delay the expeditious disposal of the cases as much as possible by seeking adjournment on one ground or the other. Since these cases are complicated and it would be against the interest of the Revenue to dispose them on ex-parte basis, the officers have to put up with this attitude of non-co-operation displayed by the affected persons. The cumulative effect of these factors coupled with manpower constraints tend

to delay the completion of assessments in search and seizure cases."

4.66. As the instance of the Committee the Ministry have furnished the following statements (December, 1980) indicating the number of searches conducted and the period within which prosecutions launched in Delhi charge:—

(i) *Number of Searches conducted*

Financial year	1975-76	1976-77	1977-78	1978-79	1979-80	Total
Delhi	70	454	74	186	334	1118

(ii) *No. of Prosecution launched in above cases.*

	Within six months	Within 1 to 2 years	Within 2 &3 years	3 years and above		Total
Delhi .	. Nil .	9	1	4		14

4.67. The Intelligence Wing of the Income Tax Department is charged with the responsibility of collecting information regarding tax evasion, assisting the Commissioners in organising search and seizure operations and processing fraud cases for prosecution.

4.68. It is a matter of regret that the Intelligence Wing of the Department have not been maintaining any statistics from which one could judge whether, and if so, in how many cases searches have resulted in unearthing unaccounted assets and prover successful. In the absence of such statistics, a meaningful analysis of the impact of search operations is not possible nor is it possible to judge whether searches and seizures are resorted to indiscriminately as alleged in certain circles or after a careful consideration. While denying the charge of indiscriminate searches, the Ministry have explained how carefully facts and circumstances are weighed by competent authority before authorising a search. The Committee take note of the procedural steps now taken by the Ministry to maintain statistics which will show the number of successful searches and concealment of income detected and gains to revenue in such searches. They would like that these statistics showing results of searches and seizures should be critically analysed with a view to making these operations more effective and efficient in the light of past experience. These statistics will also help the Department dispel the impression, if it is wrong, that searches are launched indiscriminately. (Sl. No. 51)

4.69. The Committee note that at present no cost benefit analysis of the activities of Intelligence Wing of the Department is made. The Committee appreciate that the expenditure incurred on the Intelligence Wing should not be compared merely with the value of assets seized or gains to revenue made as a result of searches conducted by the Wing. Their mere existence has no doubt a salutatory effect of its own. The Committee however feel that still it would be better for the Department to make a cost benefit analysis of the Intelligence Wings activities to be able to have a better appreciation of the role played by this wing in detecting and curbing unaccounted assets in concrete terms. This would make these wing more serious and result-oriented in their activities. (Sl. No. 52)

4.70. Out of 3437 prosecutions launched for offences under the Income Tax Act during the five years 1975-76 to 1979-80 the courts have given judgement in 395 cases, of which only in 114 cases the defaulters were convicted.

4.71. Referring to a press report of unusual delay in dealing with cases of income tax defaults, the Ministry have states that time consuming investigation and detailed scrutiny of .these cases. non-cooperation of affected parties, coupled with manpower constraints tend to delay the completion of assessments in search and seizure cases.

4.72. Making a case study of searches conducted in Delhi alone the Committee are, surprised to note that out of the 1118 cases in which searches were conducted during the years 1975-76 to 1979-80, prosecutions have been launched only in 14 cases till December, 1980. In 9 cases the time taken to launch prosecutions was to 2 years, in 1 case 2 to 3 years and in 4 cases over 3 years. The Ministry have not explained as to whether in other cases (1004), investigations have not been completed even after a lapse of such a long time or whether evidence of concealment of income has not been found: in either case, the performance of the Department on this front is nothing to write home about. In fact this can give credence to the common impression that searches and seizures are generally on frirolous grounds.

4.73. Such unconscionable delay in completing investigations, launching prosecutions and bringing the defaulters to book defeats the very purpose of searches and seizures and lowers the Department' prestige in public eye. The Committee would like the Ministry to take a serious view of the Income Tax Departments incapacity to complete investigations in search cases expeditiously and take concerte action to bring the Prosecution wing of the Department to a reasonable level of efficiency. The Committee would also like

the Department to draw up a time bound programme to liquidate the pending cases and ensure that in future investigations in search cases are completed within a specified time, failing which the matter should be examined by the Board for remedial action. (Sl. No. 54)

E. Acquisition of Immovable Properties—Launching of Proceedings

4.74. The Ministry have stated that provision has been made in section 269 C of the Income Tax Act, for acquisition of immovable properties, where these have been undervalued at the time of transfer, as such undervaluation leads to generation and circulation of black money. The Ministry have furnished the following information regarding launching of acquisition proceedings.

Year	No. of acquisition proceedings initiated.	No. of orders passed U/S 269F (6)	No. of properties vested in the Govt. U/S 269-I (4)	Value in respect of Col. (5)
				Rs.
1977-78	2657	51	4	2,27,000
1978-79	3404	51	—	—
1979-80	5400	32	1	36,000
TOTAL	11,461	134	5	2,63,000

4.75. During evidence the Committee enquired about the reasons for the huge variations between the number of cases in which acquisition proceedings were lauched and the number of cases in which acquisition orders were issued and the properties actually vested in the Government. The representative of the Central Board replied that "it is rather paradoxical to say that it (the wide variation) is inherent in the nature of it. Under section 269C of the Income-tax Act, the competent authority has to take cognizance of the transfers of properties that have taken place where the value is more than Rs. 25,000. After that, the competent authority has to apply his mind by making local enquiries through his inspector whether the consideration for which the property has been sold is fair market value or it is under-stated. If the difference between the actual consideration and the fair market value is more than 15 per cent of the registered value in the document, then under the law he is more or less bound to initiate proceedings. There is a limitation prescribed within which he has to publish in the gazette that he is initiating such action. That is why in a large number

of cases, proceedings are initiated. After that, he makes enquiries and gets the property valued through the valuer. In the meanwhile, the assessee is also given an opportunity to explain it. In these proceedings both the transferer and transferee are heard by the competent authority. After this hearing, many cases are eliminated because there is no evidence to show that the transaction has taken place with a view to evading tax. That is why the difference between cases in which proceedings have been initiated and the actual number of cases finally decided is so much. There is a long drawn out hearing. Both parties produce their own valuation reports which have to be considered. There is also a provision in the law that he has to refer such cases to the Commissioner for his approval, so that there is no injustice, because this is a punitive measure. That is why so many checks are provided. After the order is passed, the party can go to the tribunal in appeal. There is a second appeal to the High Court and finally to the Supreme Court. In 1975—76 proceedings were started in respect of properties in various places and 55 orders were passed. Ultimately today 32 cases are pending in the High Court and 3 in the Supreme Court. Cases which have been restored to the file of the competent authority is 1. Orders quashed by the High Court or Tribunal 11."

4.76. The Committee then pointed out that the net result of all these efforts was that out of the 5400 acquisition proceedings launched in 1979-80 only in one case, property vested with the Government. The Chairman Central Board replied, that "we have also to take into consideration the deterrent effect of these provisions; we understand that because of the existence of these provisions, the sale consideration is much more than what was in the past. I do agree that something has to be done to see that notices are not issued particularly in petty cases. We will have a look into it."

4.77. On a suggestion of the Committee, the witnesses agreed to review the limit laid down for initiating acquisition proceedings (at present acquisition proceedings are launched if the difference between the apparent consideration and the fair market value is more than 15 per cent of the registered value of the document) so that no harassment was caused in petty cases and only the major defaulters were punished.

4.78. Under Section 269(C) of the Income-tax Act, the competent authority can take cognizance of under-valuation of immovable property at the time of transfer and if the difference between the apparent consideration and fair market value is more than 15 per cent

of the apparent consideration, he can initiate proceedings for acquisition of the property. This measure is aimed at curbing generation and circulation of black money. The Committee regret to note that adequate use has not been made of the powers vested in the Department under this section. In the three years 1977-78 to 1979-80 out of acquisition proceedings initiated in 11,461 cases, only in 134 cases the orders were passed for acquisition and only in 5 cases the properties actually vested in the Government. This is indeed a poor show. The Department have tried to explain that the long drawn out procedure at the departmental level and the parties right to go in appeal to Appellate Tribunal, High Court and Supreme Court are the factors responsible for the poor results. In the Committee's opinion it is better to take cognizance of cases of undervaluation of a higher order and bring major, though fewer, defaulters to book in the shortest possible time than to waste time and energy on large number of petty cases without achieving commensurate results. If this is not done, the purpose of having the provision on the statute book will be defeated and it would not have any deterrent effect as is claimed by the Department. The Committee would like the Government to review the position with a view to making the law more pragmatic and really deterrent. (Sl. No. 54)

CHAPTER V

ORGANISATIONAL SET-UP AND ALLIED MATTERS

A. Organisational Set-up

The Central Board of Direct Taxes is a statutory authority constituted under the Central Board of Revenue Act, 1963. It functions as a Division of the Ministry of Finance in the Department of Revenue and deals with matters relating to levy and collection of direct taxes. It is the apex body of the Income-tax Department.

5.1. For administration of Direct Tax Laws, the Board has under its control attached as well as subordinate offices located at various places in the country. The attached offices are the Directorate of Inspection (Income-tax and Audit), (Investigation), (Research, Statistics and Publications) and (Organisation and Management Services) located in Delhi and Directorate of Training located at Nagpur. The subordinate offices consist of Commissioner's Charges which are 81 in number located at 34 places throughout the country.

5.2. Presently, Income-tax offices are located at 401 places in the country. There is a separate Valuation Cell assisting the Department in valuation of properties for the purpose of wealth-tax, gift-tax and income-tax including valuation for acquisition of properties.

Directorate of Inspection (Income-tax and Audit)

5.3. This Directorate was created in 1940 as part of the Board's Office with a view to "exercising efficient control and inspection of the work of the Income-tax Officers throughout the country. The functions of the Directorate cover general supervision and inspection of the ITOs and ICs all over India. laying down policies, programmes and guidelines so that the field organisation can work with system, speed and efficiency.

Officers and Staff Needs

5.4. The Ministry have informed the Committee that at present about 45,000 officers and staff are working in the Income Tax Department.

5.5. During the course of examination of the subject the Committee noticed that the Department have a large amount of arrears of work in hand, particularly in regard to disposal of summary assessment cases, appeals, revision petitions, etc. The main reason, according to the Department for the accumulation of work, was shortage of manpower in various cadres.

5.6. The Ministry have also stated (December, 1980) that a study relating to staffing pattern for assessment and collection work was completed in 1978 and the recommendations made therein have been test checked by the Staff Inspection Unit (Ministry of Finance) and the final proposals were under consideration of the Government.

5.7. At the instance of the Committee the Ministry have furnished a statement indicating the shortage of manpower in ministerial cadre and Income Tax Inspectors (Class III staff). According to this, the Department have put up proposals for creation of 3,103 posts in Class III grades such as Inspectors, Tax-Assistants, UDCs, LDCs and stenographers. The Department have also proposed creation of 76 Commissioner and 70 Assistant Commissioners of Income-tax. The proposals are under process.

The Department have informed that some more work-studies are under way.

5.8. On being asked whether any study has been carried out by the Department for reduction in paper work in the Income-tax Department, the Ministry have stated that though no direct study as such for reduction in paper work in the Income-tax Department has been carried out by the Directorate of O&M services, certain studies carried out have *inter-alia* resulted in substantial reduction in paper work. A study was made for rationalisation of statements/reports in the Income-tax Department received from the field formations by the Directorate and the Central Board of Direct Taxes. The Committee of Directors set up for the purpose reviewed 139 statements/reports and suggested in their place only 67 statements by discontinuing some of the existing statements and consolidating a few others. The implementation of the report from June, 1980 has resulted in substantial saving of time, labour and paper work.

5.9. The Committee have been informed that while the tax collection by the Department has gone up from Rs. 869 crores to Rs. 2790 crores during the decade 1970-71 to 1979-80, the expenditure incurred by the Department has risen from Rs. 19.43 crores to Rs. 51.71 crores during this period. The cost of collection in percentage terms during this period has come down from 2.24 per cent to 1.85 per cent.

5.10. During the course of examination of the subject the Committee noticed that the Department have a large amount of arrears of work in hand particularly in regard to disposal of summary assessment cases, appeals, revision petitions etc. The Department attribute these arrears to the shortage of manpower in various cadres which is stated to be of the order of about 3,000 persons in Class-III cadres alone. The Committee note that the Department also require 76 more posts of Commissioners and 70 more posts of Assistant Commissioners of Income-tax for coping with the work. Proposals in this regard are being processed by the Ministry. The Ministry have informed the Committee that some more work studies are under way. .. ..

5.11. The Committee feel that shortage of officers and staff should not be held out as a justification for huge arrears or inefficiency of the Department as the Department are expected to keep the staff strength abreast of the expanding workload. The Committee would like the Department to go into the manpower needs in the light of the studies already made and take conclusive measures early to provide adequate manpower at all levels to keep pace with the work. The Committee hope that, in view of the likely reduction in the work load of Income-tax Deptt. under the budget proposals for 1980-81, the staff needs of the Deptt. will be tailored to suit the new situation. ..

5.12. The Committee find that no direct study as such for reduction in paper work in the Income-tax Department has been done so far. This is an area in which there is great scope for improvement. A thorough streamlining of the system and procedures can bring about a much higher level of output and efficiency without any significant increase in manpower. The Committee would therefore like a comprehensive study of the organisation and methods to be undertaken with a view to achieving efficiency with economy.
.. .. **(Serial No. 56)**

ITOs—Different Grades

5.13. At present the Department have two cadres of ITOs—Group 'A' (Class I) and ITOs Group 'B' (Class II). According to the Ministry the rationale of more than one category of ITOs is the difference in the matter of importance of work assigned to them, although all grades of ITOs derive their powers from the I.T. Act equally—Group 'A' officers are intended to be generally given more important wards and cases except at the early probation and train-

ing stages of direct recruits, when they are required to handle work of less importance to achieve proficiency for higher work. ITOs, Group 'B' are intended to be generally given less important wards and cases. Different grades of ITOs, have been in existance even since the I.T. Service Group 'A' was reorganised in 1944. The posts of ITOs, Group 'B' provide a channel of promotion to Group 'C' officers of the I.T. Department. Besides, there is a large volume of work which can be entrusted to group 'B' officers and on which it would be wasteful to employ ITOs, Group 'A'. Posts of Group 'A' and Group 'B' officers doing similar type of work exist side by side in several Departments of the Government of India and this situation is not peculiar to the Income-tax Department.

5.14. The Ministry have however admitted that there is a long history of dispute between direct recruits and promotees to the Indian Income-tax Service Group 'A'.

5.15. During evidence, the Committee enquired whether the Ministry had not felt that the work of the Income Tax Department had suffered due to friction between the officers belonging to the two cadres. The Chairman, Central Board replied that:—

> "It is an unfortunate fact that there has been friction between two groups of officers, directly recruited and promoted officers after the reorganisation of the Income-tax Service. We in the Board are seized of this matter. We have certain proposals with us to remedy the situation. The grievance of the promoted officers is that they are not given proper promotional opportunities, I think, when these proposals are implemented, they will go a long way to heal the friction between the two sets of officers."

5.16. The Committee have also been informed during evidence that 50 per cent of the posts in Group 'A' are filled by promotion but before the officers get promotion to group 'A' they have to wait for 14 to 15 years.

5.17. The Department have two cadres of Income-tax Officers—Group 'A' (Class I) Group 'B' (Class II) with provision for 50 per cent of the posts in Group 'A' being filled by promotion from among group 'B' officers. The Ministry have admitted that there is a long history of dispute between the direct recruits and promotees to the Indian Income-tax Service (Group 'A'). Certain proposals are now stated to be under consideration to "heal the friction between the two sets of officers". It is unfortunate that the friction between two

of the most important segments of officers of the Department has been continuing for a long time and the Department have not been able to do much in the matter. This is sure to have had an adverse effect on the departmental efficiency. The Committee would like the Department to spare no effort to find a solution to this knotty problem at the earliest and bring about cordial relations between the two sets of officers. .. (Serial No. 57)

5.18. The Committee are informed that Group 'B' officers have to wait for over 14 years before they can hope to get a chance to be promoted to Group 'A'. Stagnation for such a long time appears to be at the root of frustration among Group 'B' officers. The Committee feel that a system of promotion at an early stage of the careers of Group 'B' officers through a limited departmental competitive examination preferably through UPSC or otherwise will not only be good for the officers but also conducive to efficiency and harmony in the Department. The Committee would like the Department to think in this direction. (Serial No. 58)

Office Accommodation

5.19. The Committee were informed by the Ministry that at a number of places the Income Tax Deptt. do not have their own accommodation and that the Department hired private buildings for housing the offices. It is seen that during the last 5 years the Department have paid a rent amounting to Rs. 1.90 crores in Bombay, Rs. 1.53 crores in Delhi, Rs. 1.37 crores in Calcutta, and Rs. 72 lakhs in Madras alone for the office accommodation hired by the Department.

5.20. During evidence, the Chairman, Central Board explained that:—

> "The main problem is lack of accommodation and that the Central Board is trying to do something about it. The Income-tax Department is a record oriented one and the space allotted for keeping records is absolutely inadequate; lack of space in income tax offices is one of the root causes of our inefficiency".

The Directorate of Organisation and Methods have been asked to make a study of scales of accommodation required having regard to the special features of the Department.

Residential accommodation for officers and Staff

5.21. The Ministry also informed the Committee that a number of officers and the staff of the Income Tax Deptt. had not been provided with Government accommodation. During evidence the

Finance Secretary stated that in 1975-76 a sum of Rs. 10 crores was provided for construction of staff quarters for income tax and excise officials and this provision has been repeated year after year since then. He added that "Government have recognised that Indian Revenue Service officials belonging to both Income Tax and Excise should not place themselves under obligation to any individual for accommodation. Unfortunately, because of the non-availability of land, delay in the preparation of estimates and revision of the specifications and designs of residential accommodation for different categories of government officers in 1977-78, the provision could not be fully utilised. We depend upon the CPWD for the construction of these quarters. In many cases, however, we purchase houses or flats outright from the State Housing Board, City Improvement Trust and other public bodies".

5.23. Reacting to a suggestion made during evidence, that at places where adequate Government residential accommodation was not available, the Government might hire accommodation from private parties and allot it to the staff of the Department, the Finance Secretary stated that "this is a very commendable suggestion, but we will have to examine carefully its financial implications."

Staff Cars

5.24. The Ministry have stated that the Department have 55 vehicles (staff cars—37 plus service vehicles—18) in the various charges whose number is 81 and which are situated at 34 places in the country. No norms have been laid down for provision of staff cars etc. to the Commissioners of Income-tax.

5.25. During evidence the Chairman, Central Board admitted that the number of cars available with the Department was inadequate. He stated that:—

> "We should have sufficient number of cars in field formations like Bombay and Delhi. If a pool of staff cars is maintained, such offices, the Income Tax Officers will be able to make use of the staff car of the pool. Take for example Bombay. We have in Bombay more than 700 officers—Commissioners, Assistant Commissioners, and Income-tax Officers. The total number of staff cars provided is five. The buildings are situated in very far flung areas. To go from one office to another, it will take 45 minutes or probably one hour. The number, looking from that point of view is very inadequate."

5.25. The Committee note that at a number of places the Income tax Department, do not have their own accommodation and the Department have hired private buildings for housing the Income-tax offices which has cost the Department Rs. 1.90 crores in Bombay, Rs. 1.53 crores in Delhi, Rs. 1.37 crores in Calcutta and Rs. 72 lakhs in Madras alone during the last five years.

5.26. Office accommodation is an acute problem faced by Income Tax Department and has come in for adverse comments by assessees who too feel greatly inconvenienced on this account. According to the Chairman, Central Board "lack of space in Income Tax Offices is one of the root causes of inefficiency." Accommodation requirements of the Department are stated to be under study by Directorate of O&M. The Committee would like to be informed of the outcome of the study and the action contemplated to provide adequate office accommodation for the Income-tax Offices at various places. . . . . (Sl. No. 59)

5.27. The Committee regret to note that two of the basic needs of staff and offices of Income tax Department have not been met even upto a reasonable level. The Department have not been able to provide residential accommodation to a large number of staff and officers at many places and the transport facilities provided to them for official work are also admittedly inadequate. It is unfortunate that a budgetary provision of Rs. 10 crores for construction of residential accommodation made from year to year since 1975-76 has remained unutilised all through. The Committee strongly feel that in these matters, it is not wise to expose the staff and officers of a sensitive Department like the Income-tax Department to temptations of accepting favours from outside parties.

5.28. The Committee would like that either Government should themselves construct residential accommodation or they should themselves hire private accommodation and allot it to the employees of the Income-tax Department, especially at places where private accommodation is scarce or too costly for the employees to hire at reasonable rent. (Serial No. 60)

5.29. The Committee would also like the Department to meet the transport needs of the Income Tax Officials and provide adequate number of staff cars to field formations, by pooling arrangements or otherwise, to enable them to move about in the performance of their official functions without difficulty. The Department should clearly tell their officials not to use the assessees' cars for official or personal work. . ffi(Sl. No. 61)

B. Public Relations set up

5.30 Public Relation Officers are appointed from among the ITOs in important centres. Where there are no Public Relation Officers, the "charge" Income-tax Officer of the Circle performs the functions of the Public Relation Officer. The Ministry have added that:—

(i) There is no separate cadre of staff of Public Relations units in the Income-tax Department. The question of creating separate cadre of PROs within the Department has not been examined so far by the Ministry.

(ii) The officers appointed as PROs are selected from out of the cadre of ITOs who are well versed with the provisions of the Income Tax Act and are in a position to advise the assessees.

(iii) The functions assigned to the PROs fall in 3 groups *viz*—

(i) Publicity and Tax-payers Education; (ii) Tax-payers' assistance; (iii) Grievances mitigation.

5.31 Many non-officials represented to the Committee that:—

(i) PROs are not fully equipped to render the required assistance to the tax payers.

(ii) PROs do not help the assessees in filing returns, getting refunds etc.

(iii) PROs are not keeping abreast of the latest changes made in the Act|Rules.

(iv) Assessees visiting Income-tax Department are not afforded even the minimum facilities like sitting accommodation, drinking water etc.

5.32 Commenting on these, the Ministry have stated that:—

(i) Assisting the assessees in filing the forms and looking after the grievances regarding delay in the issue of refunds, etc., are covered by the functions of the PRO. The Public Relations Officer, being a qualified Income-tax Officer, is also expected to keep himself abreast of the latest changes in the Law|Rules. The Study Group on the functioning of Public Relations Organisation, which was set up by the Department, has already made several recommendations in this behalf in its report.

(ii) It has been ascertained from the Commissioners of Income-tax that maximum possible facilities like waiting rooms, sufficient number of chairs and drinking water have been provided to the assessees in Income tax offices located in Government buildings. However, it has not been possible to provide sufficient waiting rooms both in departmental owned as well as hired buildings because of shortage of accommodation. Efforts are being made to improve the situation by constructing additional office accommodation in various places.

5.33 During evidence the representative of the Central Board stated that the Study Group on the working of the Public Relations had given its report and that most of the recommendations made by the group had been considered by the Board. The Chairman, Central Board, informed the Committee that:—

(i) The Central Board are instructing Inspecting Assistant Commissioners to conduct periodical inspections regarding the working of the Public Relations Officers.

(ii) The Board is considering the issue of detailed instructions, laying down standards regarding accommodation for visitors|assessees etc.

5.34. During evidence the Committee pointed out that, according to the reports reaching them, at times the Public Relations Officers did not behave properly with the assessees. The Chairman, Central Board stated that he would look into these problems. To a query, the Chairman, Central Board replied that "most of our officers would like to be assessing Officers rather than be PROs because the PRO is at the receiving end from the assessees and the Department. Therefore, in the review committee's report it has been suggested that more experienced and senior officers should be appointed as PRO's".

5.35 To a suggestions that there should be a special cadre of PRO's (separately selected and trained for that cadre), the Chairman, Central Board replied that the Board would examine it.

5.36 There is a general feeling of dis-satisfaction among assessees with the working of Public Relations set-up in Income-tax Offices who, it is reported, are not fully equipped to render, nor render, the required assistance to the tax-payers in filing returns, getting refunds etc. The non-officials have also represented that even the minimum facilities like sitting accommodation, drinking water, etc. are not afforded to the assessees when they visit the

income tax offices. Reports of lack of proper behaviour have also reached the Committee. The Ministry have stated that the PROs are qualified ITOs and are expected to keep themselves abreast of the latest changes in the laws/rules. A Study Group of the Department has recently studied the functioning of the Public Relations set up and made several recommendations for improving its efficiency. Most of the study group's recommendations have been accepted by the Government and are in various stages of implementation. .. . .

. 5.37 The Committee would like that detailed instructions on the nature and manner of rendering assistance to the assessees should be issued by the Department for the guidance of Public Relations units and supervisory officers advised to conduct periodical inspection of the working of these units to ensure that these instructions are carried out by them. Complaints of improper behaviour or indifference to the assessees problems should be taken serious note of. .. .. (Sl. No. 62)

5.38 The Committee would expect the Department to provide adequate accommodation and seating arrangement and reasonable level of amenities for the assessees in the Public Relations units and the Income-tax offices. These are the basic facilities which every assessee visiting an Income-tax office expects and deserves. The head of the office should be held personally accountable for any lapse on this front. Since the Chairman, Central Board, is himself aware of the unpopularity of the Public Relations work among Income Tax Officers, it is incumbent on the Department to see how they can make the Public Relations job more attractive and rewarding so that efficient officers do not grudge a posting there. It should be remembered that this is probably the first and the most frequently approached point of contact between the assessees and the Department and, as such, really, knowledgeable, public-spirited and alert officers should be posted to these units not only to project a good image of the Department but also to assist the assessees in their problems with the various wings of the organisation. Needless to say, sets of latest laws, rules, forms etc. should be available in the Public Relations Units and made available to the assessees on demand without hesitation. .. . (Sl. No. 63)

5.39. The Committee would suggest that feedback on the reactions of assessees with the working of public relations unit at each place be collected by the Department with a view to knowing and removing its shortcomings. This should be done on a regular and systematic basis. .. .. .(Sl. No. 64)

C. Valuation Cell

5.40. The Valuation Cell was created in the Income-tax Department in 1968, on the recommendations of the Public Accounts Committee to assist the Income-tax Officers for determining the correct valuation of urban immovable properties.

5.41. The Ministry have informed that the number of references decided by the cell and the value of under valuation detected by the cell during the year 1977-78 to 1979-80 were:—

Year	No. of references decided by the cell	Under - valuation detected by the cell.
		Rs. in crores.
1977-78 . .	24,623	296·12
1978-79	34,833	772·59
1979-80	25,537	282·62
TOTAL :	84,993	1351·33

A study of the impact of the valuation cell made by the Directorate of Inspection (Research, Statistics) (April, 1980) has revealed that most of the valuations made by the Delhi Unit in 1977-78 and 1978-79 are pending in appeals either before the CIT (Appeals) or the Income-tax Tribunal. Several important valuations also formed the subject of writ petitions before the High Court. "Therefore," it is stated in the Study, "it is not possible to determine with any degree of accuracy the amount of extra revenue which has been collected on account of the existence of the Valuation Cell. Their (the cell's) own best estimate is that about 50 per cent of the valuations made are upheld at the final stage or accepted by the assessee. This can only be a matter of conjecture. However, since most of the valuations are for Wealth-tax and the extra wealth determined by the Cell for 1978-79 is Rs. 763 crores, the extra revenue derived therefrom, at an average rate of Wealth-tax of 1 per cent would be about Rs. 57.5 crores *at the most.* In fact, it would be considerably less and would not exceed Rs. 4 crores even on the estimate made by the Cell itself. Actually, considering that most of the cases where large differences in value are assessed obtain substantial relief in appeals before the Tribunal and High Courts, the extra revenue determined on account of the work of

the Valuation Cell is much smaller and may not even exceed Rs. 1 crore. On the other hand, the maintenance of the Valuation Cell now costs nearly Rs. 1 crore per year. Thus one thing that can be stated with certainty is that the Cell is not cost effective at the moment. On the basis of the figures given above, the cost of collection for each rupee of extra revenue is certainly not less than 25 per cent and may even be as high as 100 per cent. This is exorbitant. Even if it is admitted, as claimed by the Valuation Cell, that its main purpose is to provide the Income-tax Department with the expert knowledge for the proper valuation of assets, this exercise has proved very expensive."

5.43. To sum up, the study has concluded with the observation that "there are two courses of action, which can be adopted in face of the above. Either the Valuation Cell should be abolished or it should be made more effective by ensuring that the valuation of all immovable property above a certain limit, say Rs. 10 lakhs, as declared by the assessee, is compulsorily referred to the Cell. This would ensure that only worthwhile cases are referred for valuation and not large numbers of inconsequential ones, as at present. However, for this a change in the law would be required."

5.44. During evidence the Chairman, Central Board referring to this Study stated that "it is felt that the study was based mostly on assumptions and conjectures, and it was also one sided. We feel that it needs a second look. So, we have sent it to the Chief Engineer, Valuation Cell, for his comments. We will have to make a better and more thorough study of this matter. I would have expected the directorate to take up specific cases in one or two ranges and follow them up minutely, but that has not been done by them. Therefore, we cannot place much reliance on this study. Anyway, we will be undertaking another study."

5.45. The Valuation Cell was created in the Income-tax Department in 1968 with a view to assisting the ITOs in determining the valuation of immovable properties. During the last 3 years, the Cell processed about 85,000 cases referred to it and claims to have detected over Rs. 1,000 crores of under-valuation of immovable properties.

5.46. On an enquiry, the Committee learnt that the Directorate of Inspection (Research and Statistics) had made a study of the impact of the working of the valuation cell in April, 1980 which showed that in the final analysis the cell, which costs Rupees one crore per annum, was not. "cost effective at the moment." The study concluded with the observation that either the Cell should be abolished altogether or that cases of all immovable properties

above a certain limit, say Rs. 10 lakhs should be compulsorily referred to the Cell for valuation. The Chairman, Central Board however, stated that "we cannot place much reliance on the study" as this study "was based mostly on assumptions and conjuctures and it was also one sided."

5.47. It is unfortunate that a study undertaken by a wing of the Income-tax Department itself which must have cost the exchequer a lot of money and time should be discarded as unreliable. Why the corrective was not applied when the parameters of the study were determined or when the study was underway is not clear. The Committee hope that Department would learn a lesson from this for the future. (Serial No. 65)

.. 5.48. The Committee would like the Ministry to immediately undertake a detailed and objective study on the impact of the valuation cell to find out whether the cell is cost effective and is producing results commensurate with the expenditure incurred on it. The outcome of the Study may be communicated to the Committee. .. .. (Sl. No. 66)

D. Complaints by Assessees ..

5.49. The Ministry have stated that during 1979, a grievance cell was set up under the personal supervision of the Chairman to deal with complaints from tax-payers addressed to the Chairman. In the Commissioners Conference, 1980, a decision was taken to have such grievance cells set up under each CITs direct supervision. The Ministry subsequently (Dec. '80) informed the Committee that in 60 charges the grievance cell had already been set up.

5.50. In a memorandum to the Committee, it has been stated that the assessee would not normally make complaints against the revenue authorities for fear of reprisal by the officers. Some other non-officials have suggested that at regular intervals the Commissioner should meet the assessees, the representatives of the Chambers and listen to the complaints and redress the grievances. Such meetings should take place without the Junior officers being in attendance as only then can the assessees open out without any fear.

5.51. Commenting on this, the Ministry have stated that, relationship with tax payers is being watched and supervised by Public Relations Officers appointed at headquarters of the Commissioners of Income-tax. Inspecting Assistant Commissioners are regularly

looking into the problems and difficulties of the assessees who acquaint them on specific issues. Commissioners of Income-tax are giving regular interviews to the assessees and their representatives as may seek redress on grievances relating to administrative or technical difficulties faced by them. Specific hours for interviews with assessees have been allocated by Commissioners for hearing them and/or their representatives.

5.52. During their periodical tours in their jurisdiction, Commissioners have also been addressing trade bodies, bar associations and chambers of commerce and also meeting tax-payers with a view to redressing grievances brought to their notice. Members of the Board likewise meet and address these bodies at the time of the inspection visits to the various CIT charges.

5.53. The Department have been organising tax-payer education programmes with a view to providing face to face meetings with the assessees who are at liberty to ventilate their grievances or difficulties without reservation.

Regional Advisory Committees in each Commissioner's charge also hold meetings bi-annually when grievances and difficulties of tax-payers are freely discussed with a view to providing a healthy relationship between the Department and tax-payers.

5.54. The Department received 2352 complaints during the years 1977-78 to 1979-80. The break-up of disposal and pendency of complaints received during this period is as under:—

(1) Complaints which were found baseless .	1,183
(2) Complaints which revealed minor irregularities .	96
(3) Complaints which resulted in disciplinary proceedings.	52
(4) Complaints under investigation as on 31-3-80	1021*
	2,372

*Out of this, 353 cases pertain to 1977-78, 285 to 1978-79 and 383 to 1979-80.

The Ministry have admitted that "the pendency of complaints as on 31-3-80 is rather disconcerting. This is primarily because there is no independent and exclusive machinery for vigilance work in the field."

Disciplinary proceedings:

5.55. The Ministry have informed the Committee that the total number of disciplinary proceedings started during the year 1977-78 to 1979-80 was 278. However, disciplinary proceedings that were initiated on the basis of enquiries made into the complaints received during the same period was only 52. The remaining 226 disciplinary proceedings (278-52) emanated from enquiries relating to complaints received prior to the aforesaid period or arose in respect of violations which came to light independent of the complaints.

Only 110 of the 278 disciplinary proceedings were disposed of during the years 1977-78 to 1979-80 and their details are given below :—

Dismissal	10
Otherwise punished	50
Acquittal	50
	110

5.56. Regarding the procedure followed for processing the petitions, the Ministry have stated that:—

> The petitions are acknowledged by the Chairman within a week of their receipt and simultaneously forwarded to Commissioners of Income-tax concerned for redressal of petitioners' grievances. As soon as the reports from Commissioners, indicating the full redressal/vindication of petitioners' grievances are received, the petitioners are informed accordingly by Chairman. The field units are expected to make vigilance enquiries as part of their administrative duties. A certain measure of objectivity is ensured by entrusting investigation to officers senior to those complained against, and by a close scrutiny by officers of the Directorate of Vigilance, of the reports sent by field units. Such an arrangement, however, did not ensure requisite degree of objectivity and independence and promptitude in the conduct of vigilance enquiries.

Directorate of Vigilance

5.57. The Ministry have informed the Committee that "the Departmental machinery, in charge of Vigilance is headed by a Member, Central Board of Direct Taxes, who is designated as the

Chief Vigilance Officer for the Department. He is assisted in vigilance work by the Director (Vig.) who heads the Directorate of Vigilance. In the field, Commissioners of Income-tax look after the vigilance matters in addition to their other duties. The Directorate of Vigilance has not been equipped with an independent investigating machinery."

5.58. The Committee enquired whether the Ministry did not feel that in the absence of an independent investigating machinery, it would be difficult for the Directorate of Vigilance to function objectively and independently of the officers belonging to tax collecting wings.

The Ministry replied that "the Commissioners of Income-tax who look after the vigilance matters in addition to their other duties generally do try to perform these functions objectively and independently but it cannot be denied that the ideal arrangement is to equip the Directorate of Vigilance with an independent investigating machinery. This arrangement has also the merit of ensuring expeditious disposal of vigilance cases.

5.59. In May, 1980, the Board set up a committee of five Cs.I.T. to have a close look into the vigilance problems of the Income-tax Department—a sensitive and large organisation having a strength of over 45,000 gazetted and non-gazetted staff. The Committee have suggested setting up of an independent machinery for vigilance work under the functional control of Directorate of Vigilance. This committee have also recommended augmentation of the existing strength of the Directorate of Vigilance which cannot effectively deal with the increasing work load of vigilance work particularly in the field of preventive vigilance. This proposal is also being processed in consultation with CVC and IFU.

5.60. During evidence the Committee were informed that the Chief Vigilance Commissioner had suggested certain modifications to the original proposals of the Ministry and that the revised proposals were being pursued with the Financial Adviser to the Ministry.

5.65. A Grievance Cell was set up in 1979 under the personal supervision of the Chairman, Central Board, to deal with complaints from assessees. Similar Grievance Cells had also been set up in 60 Commissioners charges upto December 1980. The Committee would expect similar cells to be set up in the remaining charges early. .. .. (Sl. No. 67)

.. 5.62. The Department received 2352 complaints during the years 1977-78 to 1979-80 out of which 1331 complaints were disposed of by February 1981. Of the remaining 1021 complaints still under investigation 353 are more than 3 years old, 258 two to three years old and 383 one to two years old. The heavy pendency of complaints is, as admitted by the Department, "disconcerting". The Committee cannot over emphasise the importance of expeditious investigation of complaints and prompt follow-up action, failing which the assessees are likely to lose faith in the grievance procedure and the procedure would also lose the deterent effect it is otherwise expected to have. .. ..(Sl. No. 68)

5.63. The Directorate of Vigilance do not have an independent investigating machinery. They depend on the Commissioners of Income-Tax to look into vigilance matters in addition to other work at the field level. This procedure as admitted by the Department, does not ensure requisite degree of objectivity and independence and promptitude in the conduct of vigilance enquiries. Needless to say, vigilance enquiry if not conducted by an independent machinery has no meaning. This serious drawback in the system should have been rectified long ago. Now when the need for setting up an independent machinery for vigilance work has after all been realised the Committee would expect the Department of reinforce the Directorate of vigilance with an independent investigation machinery to deal with vigilance work effectively and efficiently at the headquarters as well as field levels at the earliest.

. . . .. (Serial No. 69)

5.64. It has been brought to the notice of the Committee that in many cases assessees do not make complaints against Departmental authorities for fear of reprisals by the Officers concerned. The Ministry have explained how PROs, Asstt. Commissioners and Commissioners make themselves accessible to assessees and redress their complaints. In addition to what is being done at present, the Committee would like the Commissioners of Income-Tax to meet assessees and representative bodies individually or in groups without having junior officers in attendance who may be directly involved with the assessment work against whom the assessees may be having complaints. Unless such exclusive meetings are held in confidence, it is difficult to expect the assessees to open out and bring their complaints to the notice of Commissioners frankly.

.. .. (Sl. No. 70)

E. Maintenance of Records

5.65. There are different systems prevailing in the Department recording maintenance or records with various offices viz. the office

of the CIT (Appeals), Appellate Assistant Commissioner and Income-tax Officer etc. However, the basic records are maintained with the Income-tax Officers.

There is a procedure of annual physical verification of files to be done by the concerned ITO who on completion of this exercise sends a statement of missing files to IAC & CIT. Necessary corrective measures are undertaken locally to trace out the files and wherever this fails, to reconstruct them.

5.66. Asked about the number of files found missing at the time of annual physical verification of files by ITOs, the Ministry have stated that "that information regarding the number of files found missing at the time of annual verification of files in the various charges is not available. It is understood that this information is not being called for from the Commissioners."

5.67. Subsequently the Ministry informed that no file was found missing in the annual physical verification in Delhi change during the financial year 1979-80. The Department propose to obtain a feed back regarding the number of missing files found as a result of physical verification from the next year.

5.68. A Non-official has represented to the Committee that "documents disappear mysteriously, causing needless harassement to the assessees. How they reappear when the appropriate palm is greased through agents is another stom. Many of these documents are irreplaceable and copies are hard to arrange when a few days before the deadline the assessee is informed that ex parte assessment would be made unless they are produced." Similar views were echoed by a number of other non-officials and representative of leading chambers of commerce and industry.

5.69. Commenting on this, the Ministry have stated that—

(i) The Department, at times, do come across complaints about loss of documents filed by the tax payers which no doubt, puts them to hardship. The Department have however, already streamlined the procedure for the receipt and custody of tax returns so as to avoid their loss and to enable the fixing of responsibility in case of any such loss. To solve the problem of loss of original partnership deeds, the Board is considering the feasibility of amending the provision of section 185 of the Income-tax Act so as to dispense with the need of filing of the original deeds. To overcome the problem of loss of

some other important documents, the study group on Public Relations as well as DOMS have recently made certain recommendations. These recommendations are under consideration of the Board. The DOMS is conducting further study to prevent loss of some other important documents. Besides, comprehensive study on record management is also under way which will cover these aspects again. (This study was undertaken in July, 1980).

(ii) The loss of any document after its receipt in the I.T. Department may be out of mischief or negligence or any other reason. During the study on record management the need for streamlining the procedure for receipt and custody of other important documents with a view to enabling the Department to fix responsibility squarely on the persons responsible for loss of such documents, will also be kept in view.

5.70. Asked whether any other study of record management was made earlier, the Ministry have replied that:—

"no comprehensive study on record management, as such, seems to have been made by the Department in the near past. However, certain areas of record management about which the Department felt more concerned have been studied sometime in the past. For instance, the procedure regarding receipt and filing of tax returns was studied in early 1976. The study team recommended the streamlining of the procedure by introducing certain innovations with a view to avoiding the loss of returns and enabling the Department to fix responsibility in case of any such loss. The revised procedure was introduced from June, 76 onwards."

5.71. During evidence, the representative of the Central Board explained that "so far as the Return, Rectification Application and Dividend Warrant are concerned, we have evolved a new procedure whereby all these are listed in the Acknowledgement Slip and that Slip is prepared by the Tax-payer himself. Then, on the basis of that an entry is made in the Receipts Register and the transfer memos are prepared and passed on to the Head Clerk, the ITO and the Record-keeper. Under the new system we can certainly take action and fix responsibility against the person who is supposed to have lost the document."

5.72. The witness added that based on the recommendation the Study Group in Public Relations the following steps have been taken:—

(i) According to the law, Partnership firms have to file original partnership deeds before the ITOs. It has now been decided that photostat copies of partnership deeds would be considered adequate by the ITOs for finalising assessments.

(ii) Application for first registration of a firm is also a very important document. This document will be kept in Central cell for safe custody.

(iii) Title deeds of property submitted by the assessees in original should be kept under the personal custody of the ITO.

5.73. During evidence, the Committee suggested that instead of calling for original title deeds of property, registration application etc. the assessees could be asked to furnish photostat copies duly authenticated by Notary Public. Whenever an ITO require to see original documents, the assessees could be called upon to file the original. To this the Chairman, Central Board replied that "certified copy is not sufficient. original title deed is necessary."

5.74. The Committee also suggested that in the case of dividend warrants also photostat copies could be accepted by the ITOs with adequate safeguard.

The Committee also felt that sometimes the assessee himself might get the documents misplaced in the Department and try to take advantage of that. If photostat copies were accepted by the Department such problems might not arise.

Space for keeping records

5.75. The Ministry, on an enquiry by the Committee, have stated that "the space provided for storing is not considered adequate in respect of any office. Frequently complaints regarding space allotment for this purpose are received from various Commissioners. No study in particular has, however, been undertaken on this point so as to identify the exact areas or extent of inadequacy.

The Ministry have informed the Committee (in January, 1981) that the Directorate of Organisation & Management Services (Income-tax) has already been directed by the Board to make a study in this regard.

Arranging files according to P.A.N.

5.76. The Ministry have informed the Committee that assessment records are arranged either alphabetically or in accordance with GIR Nos.

Asked about the reasons for not maintaining records Permanent Account Number-wise, the Ministry have stated that:—

(i) The Department are committed to the use of PAN as a unique code of identification of assessees in respect of all tax functions. The PAN scheme was introduced only in 1971 and as such it is a comparably new system compared to GIR No. which has been prevalent in the Department for a long time and both the assessees and the field staff have been long accustomed to its use. The Department is making continuous efforts to popularise its use at all levels by the assess as well as the field staff of the Department. However, it will take some time to fully establish the system of PAN and ensure its effective use."

(ii) "The field formations of the Income-tax Department are using the old systems of GIR No. or the alphabetic system partly due to difficulty in maintaining the files Permanent Account Number-wise, because permanent account numbers of the assessees in a ward are not continuous, and also because many assessees are yet to cultivate the habit of showing permanent account numbers in their correspondence with the Department."

5.77. During evidence, the Committee enquired whether the period of 10 years was not long enough for the Department to switch over from GIR system to PAN system. The representative of the Central Board admitted that "it has taken a long time to switch over from GIR to PAN. We are making every effort to complete the process."

He added that.—

"There is one reason why this switch over or the allotment of PAN was somewhat neglected. I must say, we are terribly short of staff. There are other important areas of work like assessment, collection reduction of arrears and so on and so forth, which are given some higher priority. But, we assure that we are doing our best to complete this switch over to PAN as early as possible."

5.78. A number of non-officials have represented to the Committee that original documents field by assessees are often misplaced in the Income-tax Department. The loss of document which could be out of mischief or negligence puts the assessees to a great inconvenience. The Department claim to have streamlined the procedure for receipt and custody of tax returns and fix responsibility in case of loss of any document but this does not provide any consolation to the assessees whose valuable documents are lost in the process. What is required is a radical change in the approach which should eliminate the necessity for original documents in as many as cases as is possible and accept certified photostat copies in the maximum number of cases. .. ..

5.79. The Committee are informed that after a study had into the matter, the Department have decided to accept photostat copies partnership deeds, but in the case of applications for first registeration, title deeds of property and dividend warrants, the Department would still like to have original documents and not the photostat copies. The Committee feel that the Department should not in the first instance insist on original title deeds of property, first registration applications and such other documents where photostat copies duly authenticated by Notary Public could serve lhe purpose. In such cases the Department can always reserve the right to not for original documents for their inspection before passing any orders in the matter. A suitable procedure in respect of each document should be evolved depending on its importance taking adequate safeguards against the misuse of the procedure. .. .. (Sl. No. 71)

5.80. In respect of those documents which the Department cannot accept in photostat form in any circumstances—and such documents should be very few—the Income-tax Officer should be required to sign the photostat copy thereof and give them back to the assessee for this custody and use and as a proof of his having submitted the original to the Income-tax Officer. (Sl. No. 72)

5.81. A comprehensive study on record management is stated to have been conducted by the Department recently. The Committee feel that there is an imperative need to introduce the most modern methods of record keeping and retrieval in the Department which receive for inspection a region of valuable documents from assessees all over the country and which is locally and morally bound to keep them in safe custody and produce them whenever needed. Instead of tinkering with the problem by taking isolated measures here and there, what is needed is a systems approach which should

make it possible for the Department to get at any file instantly from a central place to which it should go back after it is done with. The Committee strongly feel that unless the record system is modernised and made fool proof, the efficiency in the Department would not improve and the malpractice which the assessees are complaining of would not be eradicated. .. .. (Sl. No. 73)

5.82. The Committee are surprised to learn that though a procedure of annual physical verification of files is in vogue in the Department, the information about missing files is not received at the centre and the headquarters are not in a position to say how many files are found missing in the annual physical verifications in the various charges. In the Committee's opinion feed back regarding the number of missing files should be available with the headquarters after annual physical verification to enable them to take remedial measures in the matter from time to time. (Sl. No. 74)

.. 5.83. The Committee are also informed that the record space in the Income-tax Offices is not adequate. The Committee expect the Department to study the extent of inadequacy of space for records and see what can be done to remedy the situation. (Sl. No. 75)

.. 5.84. The Committee regret to note that even though Permanent Account Number (PAN) system was introduced as far back as 1971, the Department have, even after a lapse of ten years, not been able to switch over from the old GIR system to the new PAN system in the matter of keeping records. Continuance of old and new systems side by side cannot but create confusion in day to day reference and the sooner the switch-over to PAN system is made, the better it would be for the Department. .. (Sl. No. 76)

F. Direct Taxes Advisory Committees

5.85. The Ministry have stated that the Central Direct Taxes Advisory Committee at the Centre with headquarters at New Delhi and Regional Direct Taxes Advisory Committees at the headquarters of various Commissioners of Income-tax are consituted by the Department. The functions of the Committees broadly are as under:—

(i) to advise on measures for development and encouraging mutual understanding and cooperation between the assessees and the tax administration.

(ii) to advise on measures for removing administrative and procedural difficulties of a general nature.

Members of these committees include, *inter alia*, Members of Parliament of the region concerned, professional experts such as, chartered accountants, lawyers and representative of trade, commerce, industry and professions.

5.86. The Central Advisory Committee consists of 19 members and is headed by the Minister of Finance. The Regional Advisory Committees consists of 7 members and is chaired by the Commissioner of Income-tax.

5.87. During evidence, the representative of the Central Board informed the Committee that:

> The Central Advisory Committee was formed in 1962, and till 1978 it held 20 meetings. In seven of these years the committee met twice as they are expected to do. In six years there was only one meeting and in the remaining six years including 1971, 1977, 1979 & 1980 there was no meeting at all. It is very necessary for Central Advisory Committee to meet twice a year.

F. Regional Direct Taxes Advisory Committee

5.88. The Committee observed from the information furnished by Ministry that out of 18 Regional Direct Taxes Advisory Committees, 6 committees (at Hyderbad, Jaipur, Madras, Patiala, Rohtak and West Bengal) did not meet even once during the last three years (1977 to 1979), 3 committees (at Bhubaneswar, Bhopal and Shillong) met only once (at Bhubaneswar meeting only one member out of 7 was present); four committees at Amritsar, Ahmedabad, Bangalore and Bombay, did not hold any meeting in 1977 or 1978 but held 2 meetings in 1979. Poona was the only place where the Advisory Committee met once in each year.

5.89. During evidence, the Committee observed whether this trend did not show lack of interest on the part of the Commissioners of Income-tax in the Regional Committees. The representative of the Central Board stated that they had tried to analyse the reasons why these committees could not meet twice a year and they had taken remedial measures as follows:—

(i) A lot of time was taken in the constitution of the Regional Direct Taxes Advisory Committees. Government have

taken a decision last year that it will not be necessary to end the term after two years of its constitution. In case it is not reconstitutes shortly thereafter, it will continue till it is reconstituted.

(ii) There was some delay in nominating the Members of Parliament to the Committee. When the Committee is newly constituted and even if there is delay in nominating the Members of Parliament, it has been proposed that the meeting of the Committee may not be delayed on this account.

(iii) Another reason for delay was the appointment of one of the representatives of the State Government to the Committee as its Members. Earlier he used to be appointed on the basis of the name recommended by the State Government. Now he will be appointed by designation. This will eliminate the delay.

The representative of the Board added that:

"Some of the Commissioners have been able to hold these meetings even during the last three years. This does show that some of them have taken greater interest than others."

5.90. The Committee regret to note that the Central Direct Taxes Advisory Committee at the centre and Regional Direct Taxes Advisory Committees at the headquarters of various Commissioners of Income Tax which were constituted to provide an important forum for mutual exchange of ideas and experiences on tax administration between the assessees and the Department, have not been meeting regularly in the recent past. During the last 4 years (1977 to 1980) the Central committee met only once.

.. 5.91. Regional Advisory committee at six places (Hyderabad, Jaipur, Madras, Patiala, Rohtak and West Bengal) did not meet even once during the last 3 years (1977—1979), at three places (Bhubaneshwar, Bhopal and Shillong), these met only once during this period, (at Bhubaneshwar only one out of seven members was present). From this, the Committee cannot but conclude that the Department and the Commissioners of Income-tax do not have adequate appreciation of the usefulness of this forum and have not

taken adequate interest in holding their meetings. The Committee take not of the measures now contemplated by the Department to activise these committee and hope that the meeting of the Central and Regional committees would hereafter be held twice a year to discuss administrative of procedural and policy matters concerning direct taxes and follow-up action taken in the light of their discussions. . . . . (Sl. No. 77)

NEW DELHI;
April 6, 1981
Chaitra 16, 1903 (*Saka*)

S. B. P. PATTABHI RAMA RAO
Chairman
Estimates Committee.

APPENDIX

Summary of Recommendations/Observations

Sl. No.	Para No. of the Report	Recommendation/Observation
1	2	3
1	1.6	The Committee feel that if their recommendations and conclusions are taken seriously and implemented in letter and spirit, the tax administration would be streamlined, difficulties of assessees would be considerably removed, tax evasion curbed and the tax revenues would go up.
1A	1.22	The Committee cannot help viewing with concern the heavy shortfalls in actual collections vis-a-vis targets during the three years 1977—1980. The continuing arrears of nearly Rs. 600 crores despite numerous measures to reduce them also a matter of serious concern. The fact that nearly Rs. 22 crores had to be written off in 1978-79 and over Rs. 10 crores in 1979-80 is a reflection on the Department's efficiency. These statistics which are indexes of the Department's performance lead to the conclusion that measures taken by the Department to realise tax dues have not been effective enough and must be intensified. The Committee would urge the Department to maintain relentless pressure on all fronts to show better results in collecting current demands and reducing arrears. (Sl. No. 1A)
2	1.23	While the Committee do not wish to wholly deny credit to the Income tax machinery for the 85 per cent of the collections which come in automatically, they wish to point out that the area requiring the special attention of the I.T. machinery is not so large that they cannot manage it effectively. The Committee would like the De-

1	2	3
		partment to remember that their efficiency would be judged more by collections made on their own efforts than by collections flowing in anyway from year to year under the salutary effect of the penal provisions of Income tax laws.
3	2.10	The actual size of the new returns is expected to be considerably shortened and according to the Ministry "any person with an average intelligence should be able to fill it without any expert help." The Committee hope that this expectation in realised. The Committee would like the forms of returns to be periodically reviewed and whatever modifications are required to simplify them, should be made periodically.
4	2.11	Since non-official opinion was not invited before finalising the new forms the Committee trust that, as assured during evidence, the Ministry will seek the opinion of non-official organisations on these forms and examine the possibility of simplifying the forms still further in the light of non-official views. In fact this should be a continuous process.
5	2.14	The Committee would like the Ministry to ensure that return forms are easily available in all towns and supplied to all those who ask for them. In order to avoid misuse and wastage, the forms may be priced and sold through post offices, banks and other such organisations so as to bring them within the easy reach of assessees in cities or mofussil towns.
6	2.17 &	The Committee would like that the Income-tax Department should devise ways and means of overcoming the constraints of staff at least for that period arranging temporary staff and space towards the closing dates so as to open adequate number of counters to receive returns and thus enable the assessees to file their returns conevniently without long wait.

1	2	3
7	2.38 to 2.41	The Committee note that the Department disposed of 82 per cent (29,87,927 cases) of the summary assessment cases during 1977-78, 70 per cent (24,12,165 cases) during 1978-79 and 67 per cent (25,71,997 cases) during 1979-80 and left a backlog of 6.62 lakh cases at the end of March, 1978, 10.16 lakhs at the end of March, 1979 and 12.72 lakhs at the end of March, 1980. Seeing the declining rate of disposal of cases and growing arrears under the Summary Assessment Scheme, the Committee cannot but conclude that the objective of expediting the assessment has not been achieved so far. While the Committee welcome the plan drawn up by the Department to reduce the pendency of summary assessment cases to 10 per cent by the end of March, 1984, the Committee feel that the Department should be so geared as to dispose of all the summary assessment cases pertaining to a year during the same year and the Department should start drawing up plans, and taking necessary measures to achieve this target at the earliest. Only then can the objective of Summary Assessment Scheme be said to have been really fulfilled.
8	2.42	The Committee would like the Department to keep an eye on the manner of functioning of ITOs and see that except in sample scrutiny cases duly selected for the purpose, assessees are not summoned to appear before the ITOs and the latter dispose of such cases on the basis of the returns alone in consonence with the purpose of the scheme.
9	2.43 & 2.44	The Committee note that the Department have decided that during 1981-82 the ITOs should give the highest priority for the disposal of cases selected for sample scrutiny including the pending cases and these should be completed during

1	2	3
		that financial year itself. The Committee feel that this should have been the approach right from the beginning. They would like the Department to ensure that summary assessment cases selected for sample scrutiny during a year are disposed of during the same year itself. The Committee would like strict monitoring of the pace of disposal of sample scrutiny cases so that any slackening of pace of disposal is detected at the earliest and remedial measures taken promptly to see that the target of disposal of all such cases during the year itself is achieved.
10	2.45	The Committee would like that, as assured by the Finance Secretary during evidence, information about concealment of income detected while disposing of sample scrutiny cases should be collected and collated regularly and analysed at the highest level to evaluate the success and loopholes of summary assessment scheme with a view to taking remedial measures in the light of the evaluation.
11	2.58	The Committee are glad to note that after the Ministry's attention was drawn to the reported tendency of ITOs to call assessees for personal hearing even before scrutinising their returns, the Central Board of Direct Taxes have issued instructions impressing upon the ITOs to avoid indiscriminate and mechanical issue of notices without acquainting themselves in advance as to the nature of their requirements and to specify in the notices the documents required to be produced and the points in which clarification is needed before fixing the case for hearing. The Committee feel that if harassment to assessees has to be avoided, Commissioners of Income-tax should keep a vigilant eye on the ITOs to ensure that these instructions are followed in actual practice and disregard shown by the ITOs in this respect is viewed seriously.
12	2.59	The Committee feel that it amounts to harass-

1	2	3
		ment of the assessees and projects a bad image of the Department if appointments for hearings fixed by ITOs are not honoured and adhered to, no matter what the reasons may be. The Committee are glad to note that the Central Board have appreciated the feelings of the assessees and have agreed that it should be possible for the ITOs to inform the assessees in advance over telephone, wherever possible, about the last minute cancellation of hearings. The Committee expect that the Central Board will issue suitable instructions to the Commissioners and ITOs asking them to hold the hearings fixed by them on schedule and if due to certain unavoidable circumstances a hearing cannot be held on the appointed day, the assessee should be informed in advance either through a letter or over telephone to a responsible person in the assessee's house wherever possible. The information about the cancelled or adjourned hearings should also be displayed on the notice board outside the office of the ITO concerned and on the general notice board of the Department for the benefit of the assessees who may happen to come to the Department unaware of the cancellation of the hearing.
13	2.60	The Committee are glad that the Central Board of Direct Taxes have seen it fit to agree to amend the format of the assessment order so as to provide that the dates of hearings held in connection with an assessment, are indicated in the Assessment order. This would have a salutary effect and restrain an ITO from calling an assessee unnecessarily for personal hearing.
14	2.66	The Committee would like that, as agreed to by Finance Secretary the system of service of Income-tax notices and orders by registered post should be tried in a judiciary and economical manner on an experimental basis in selected areas and progressively extended to other areas.

1	2	3
15	2.73	In the Committee's view a reference to the Central Board for 'guidance' in cases falling under section 273A (affects the assessees ultimate right of appeal to the Board against the Commissioners' decisions) and also compromises the quasi-judicial role of the Commissioners. The Committee would like that instead of shifting the burden to the Central Board, the Commissioners should apply their own mind and decide cases under section 273A independently in their quasi-judicial capacity without any 'guidance' or 'advice' from the Board and take the responsibility themselves. The Committee would expect the Central Board to issue clear instructions to all the Commissioners and desist from giving them any guidance or advice in such matters.
16	2.77	The Committee cannot but take note of the representations made by non-officials that Valuation certificates obtained by assessees from Registered Valuers are not accepted by the Department though the latter have denied the charge. The Department, when asked to furnish data to enable the Committee to judge for themselves the correct position, could not do so. The Committee would like the Department to make a sample study of the fate of valuation certificates in Delhi, Bombay, Calcutta and Madras charges and apprise them of the results within six months.
17	2.78	The Committee feel that the present system of requiring valuation certificate from Registered valuers should be reviewed if the Department find, in the light of the sample study referred to above, that by and large these certificates are not reliable.
18	2.83	The Committee would like that Permanent Account Numbers should be allotted to those who apply for them within a specified period say, 6

1	2	3
		months, and the pendency beyond this period should be looked into by the Central Board.
19	2.84	At present PANs are allotted to those assessees only who apply for them. In the Committee's view it is very necessary that all assessees, whether they apply or not should have PANs as soon as they are enrolled on the registers of the Department. The Committee would like the Central Board to take necessary steps in this direction.
20	2.89 & 2.90	The Committee appreciate the difficulties of the Deptt. but feel that the difficulties of the assessees are also real and need a sympathetic consideration. The Committee would suggest that the question of introduction of pass books should be studied by the Deptt. with an open mind in conjunction with non-departmental experts with a view to finding out whether and if so, in what form the system of pass book could be adopted without adding much to the administrative cost.
21	2.94	The Committee feel that for the convenience of assessees, the Department should not grudge increasing the number of public sector banks authorised to receive tax payments from three at present to at least nine in the immediate future.
22	2.97	The Committee take note of the understanding reached among the C&AG, Ministry of Finance and the Central Board of Direct Taxes that if an interpretation of law given by C&AG is not acceptable to the Ministry/Central Board and if the matter is taken to the Law Officers of the Govt. of India at appropriate level, the ruling given by the Law Officers would be acceptable to all of them.
23	2.115	The Committee would like the Ministry to enquire into the phenomenon of non-payment of

1	2	3
		interest under Section 243 and inform them within six months of the facts under all commissioners charges together with the steps the Ministry propose to take to set things right.
24	2.116	The Committee urge that a thorough enquiry into cases of delays in settlement of refunds be held with a view to analysing the reasons for delay and taking effective measures to remedy the situation. They would also like to know whether the Deptt's instructions requiring disciplinary action being taken in cases of delay were followed in all cases of delay and, if not, why not?
25	2.117	The Committee feel that the root cause of the sad state of affairs in refund cases appears to be the lack of a proper information system capable of bringing delays in settlement of refund claims to the notice of supervisory officers periodically as a matter of course. What is needed is a more methodical system of work which may *inter alia*, provide for a separate account of receipt and disposal of refund cases with a built in procedure to enable the senior officers to monitor the progress at regular intervals. The Committee would like the Department to evolve a suitable system in this regard and apprise the Committee.
26	2.118	The system should provide for a distinctive colour or marking for refund claims to prevent the refund claims from getting mixed up with other papers.
27	2.119	Even though instructions are stated to have been issued by the Board that refund orders should accompany the assessment orders, or orders giving rise to refunds, from the complaints reaching the Committee, it appears that these instructions too are not being observed by all

1	2	3
		the ITOs. Similar complaints have been received about non issue of advice to banks simultaneously with the issue of refund vouchers in cases where bank advice is required to be issued. It is doubtful whether, even in these cases, disciplinary action has been taken against any officer for delays in issue of refund vouchers even though such an action is required to be taken under administrative instructions. The Committee would like that case studies of this aspect of the working of a few charges on a selective basis be also made and the system of working made foolproof in the light of the results of the studies to avoid any complaints on this account. The Committee would like to be informed of the action taken in the matter.
28	2.120	According to the present procedure a determined refund can at the request of an assessee concerned, be adjusted against an admitted tax liability of the assessee. But the Department are not prepared to allow the assessee to adjust an unpaid but determined refund against a future liability as suggested by some non-officials. They would like the Department to examine the suggestion further to see if it can be accommodated in the scheme of things in any refined form.
29	2.128 & 2.129	The Committee have gone into matter. They are of the opinion that film artistes and other categories of professionals such as authors, playwrights, musicians, sportsmen (including athletes) who have a relatively short span of professional life need some relief for their lean and old days. The cases of once highly successful film artistes, sportsmen, authors, etc. languishing in old days are too well-known to require recounting here. The Committee feel that the general question of adequacy of existing tax concessions to such professionals having

1	2	3
		a short professional life and uncertain future, including the gains to revenue and loss to professionals as a result of withdrawal of concessions under Wealth-tax Act in 1974, should be dispassionately reviewed with a view to rationalising the tax provision.
30	3.24 & 3.25	The Committee regret to note that departmental appellate authorities, viz. AACs and CITs(A) and CITs, have in no year been able to keep pace with the work load with the result that the number of pending appeals have been increasing from year to year. The Ministry have admitted that targets were "somewhat unrealistic" but, it is stated, "somewhat challenging" targets were laid down to stimulate the appellate authorities to dispose of maximum number of cases. While the Committee welcome the Central Board's approach to lay down "challenging" targets, it appears they have not succeeded in gearing up the system to enable the appellate authorities to rise to the occasion anywhere. The Committee would like the Central Board to review the position and devise a more practical approach which should be challenging as well as realistic and create a result oriented system to ensure disposal of appellate work according to planned targets.
31	3.26	An analysis of the pending appeals/revision petitions shows that about 2 years work load is pending with AACs, 15 months work load (revision petitions only) is lying accumulated with CITs and over 1 year's work is pending with Income-tax Appellate Tribunal. For disposing of arrears with AACs, the Central Board have evolved a norm that, at the end of the next four years, not more than six months work load should be pending with each AAC. The Committee feel that this norm should also apply to

1	2	3
		CITs, CITs (A) and Income-tax Appellate Tribunal. Their administrative sets-up and appellate procedures should be so re-organised that each one of these appellate authorities should be able to reduce the pendency to six months work load at the earliest. Needless to say this would require constant monitoring and periodical review of achievements, which, the Committee hope, the Central Board would do conscientiously.
32	3.27	The Central Board have informed the Committee that they scrupulously honour the independence of the Departmental appellate authorities and that it is not correct to say that these authorities have a bias against assessees. The Committee however, cannot help taking note of a general feeling of distrust among certain non-official circles in the objectivity and the independence of these authorities. The Committee would advise the Central Board to make every effort to dispel the suspicion of pro-revenue bias among assessees and restore their confidence in the fairness of departmental appellate procedures.
33	3.28	The Committee would like the Central Board to ensure compliance of their very wholesome instructions in this regard to ensure that final decisions are given in fully heard appeal cases by appellate officers under transfer orders before they lay down charge.
34	3.29 & 3.31	In the context of long delays in litigation under direct tax laws, the Chokshi Committee's proposal for establishment of a Central Tax Court with all India jurisdiction is worthy of serious consideration. The establishment of more benches of High Courts would not be able to provide a final solution to the problem in as

1	2	3
		much as parties cannot be barred from going to Supreme Court in appeal against the High Courts nor can conflicting rulings be avoided. In the Committee's opinion if time-consuming process of litigation in courts of various levels has to be avoided and Government dues collected without avoidable delay, there is no escape from setting up a Central Tax Court with exclusive jurisdiction and final say in tax matters. The Committee are aware of the constitutional difficulties but these are not insurmountable. The Committee would like the Government to take an early decision in the matter.
35	3.38 & 3.39	The Committee regret to note that even though it was apparent right from the beginning (1976) that the Settlement Commission's capacity to dispose of cases was only a fraction of the intake, the Ministry took no tengible action to strengthen the Commission. The Committee would like that the consideration of various suggestions before the Government like increasing the strength and benches of the Commission and investing Commissioners of Income-tax with powers to settle cases without reference to Commission should be expedited and necessary steps taken without delay to strengthen the system to enable it to cope with the work. The Committee would recommend that in the case of the Settlement Commission also the norms of reducing the pendency to not more than six months work load by the end of the next four years should be adopted and structural and procedural re-organisation of the Commission brought about with this aim in view.
36	4.4 & 4.5	The Committee wish it were possible to make a reasonable estimate of blackmoney as such an estimate will no doubt enable the Government to formulate more appropriate policies and take

1	2	3
		more effective administrative measures to curb the generation and use of blackmoney to save the economy from its pernicious role and minimise inflation in the country.
37	4.10	During Survey Operations to identify new assessees, the Income Tax Department collect information from a number of sources like the Registrar of Companies, imports and exports offices, luxury hotels, Sales Tax Department, Municipal authorities etc., and pass it on to assessing officers for further action. The Committee find that there is no provision which makes it mandatory for the various authorities to furnish the desired information to the Income-tax Department. The Central Board feel it would be helpful if such a statutory provision is made. Now when the need for a statutory provision in this regard has been accepted, the Committee would expect the Government to initiate action to make a suitable provision in the Income-tax Act as early as possible.
38	4.11	The Committee would like the Central Board to review the working of the Central Information Branch and the assessing officers and take measures without any further delay to ensure that all relevant information is regularly and systematically collected and disseminated to assessing officers and made full use of by them. In this arrangement a specific responsibility should be cost on the supervisory officers to make sample checks and take corrective measures. The Committee would like to be apprised of the action taken in the matter.
39	4.15 & 4.16	The Committee cannot but hold the Department fully responsible for not bringing this "effective tool" for curbing ostentatious expenditure to the notice of field staff and deplore the

1	2	3
		Department's failure to discharge this elementary duty. The Committee would urge that full and judicious use of the powers under Section 133A be made by field staff and monitored at appropriate levels and information collected during surprise checks of lavish expenditure on parties etc. be used at the time of assessment.
40	4.19	The Committee regret to note that a wholesome provision made for referring certain accounts for compulsory audit by auditors to be nominated by Commissioners, under Section 142(2A) of the Income Tax Act w.e.f. 1-4-1976 has not been utilised to the extent to which it should have been utilised. During the last 3 years only 16 cases were referred for compulsory audit under this power. The Committee recommended that all preparatory work to give effect to this provision should be completed without any further delay and the power of compulsory audit used in all cases where it is necessary to do so in the interest of revenue.
41	4.23 to 4.25	The Committee strongly feel that the Central Board should not vaccilate any longer, and invoke the powers vested in them under Section 139(A) (5) & (6) and specify the transections in which it will be compulsory for the persons to quote their Permanent Account Numbers. Simultaneously, the Board should make adequate administrative arrangements to collect information about and to make random checking of such transactions with a view to detecting cases of tax evasion. Needless to say, the Board will have to make arrangements for allotment of PANs at Short notice to new parties, who may be entering into high value transactions for the first time before being registered as income tax assessees.
42	4.32 to 4.35	The Committee would like the Ministry to reconcile the two figures of the self employed professionals given to them so as to have a

1	2	3
		clearer picture of the magnitude of self-employed professionals without which it will be difficult for them as well as for the Committee to have any idea about the extent of tax evasion among this class. The Income-tax Department should obtain lists of professionals from the respective professional bodies like Bar Councils, regional Institutes of Chartered Accountants, etc. Lists may also be collected by visits to various localities. All such lists should then be compared with the lists of Income-tax payers available with the Department to ascertain whether all of them are paying Income-tax or not. The Department it is stated, have made some efforts in this direction from time to time. The Committee would, however, like that approach of this nature should become a regular and integral part of the survey operations which are carried out from year to year.
43	4.36	In some of the metropolitan cities, the Department have exclusive Income-tax Officers for particular categories of professionals like doctors, lawyers, etc. The Committee would suggest that this practice may be extended to all big cities and an ITO dealing with a certain category of professionals in a particular area should have the jurisdiction to deal with all those persons, institutions and enterprises which might broadly be connected with that particular category of professionals. For example, all the doctors, private clinics, nursing homes and medical shops in an area, should be assessed by the same Income-tax Officer.
44	4.37	The Committee feel that there is great merit in the suggestion that all newcomers to the profession (newly registered or transferred from elsewhere) should be required to notify their names and addresses to the Income-tax Depart-

1	2	3
		ment when they start private practice. The Department should immediately advise them to maintain accounts of income and savings and other relevant records right from the beginning and explain to them under what conditions they will become liable to pay Income-tax. At periodical intervals, the Department should ask them to declare that their annual income does not exceed taxable limit.
45	4.38	The Committee also feel that the companies and institutions which employ the services of professionals like doctors, lawyers, etc. should be required to deduct tax from the fees paid to these professionals when the fees payable in any year exceed a certain limit, say Rs. 2-3,000/-.
46	4.39 to 4.40	The Committee are surprised to find that even though Section 44AA of the Income-tax Act, as inserted by the Taxation Laws (Amendment) Act, 1975 provides for compulsory maintenance of accounts by certain categories of professionals and empowers the Board to specify the books of account and other documents that should be maintained by them to enable the Income-tax Officer to compute their total income, the Income-tax Department have not exercised this power and have not laid down the nature of books and records that they should maintain. The Deptt. have tried to explain as to why this power has not been exercised so far but the Committee are not satisfied with the explanation. Now when the Chokshi Committee have also made certain recommendations as to the nature of records which the professionals should maintain, the Committee would like the Central Board not to lose any more time to exercise the powers under Section 44AA and specify the books of account, etc. which should be maintained by self-employed professionals with suitable provision to and against hardship to new entrants in the profession.

1	2	3
47	4.41	Need for prescribing differential rates of income-tax for businessmen, self-employed professionals and salaried class has been expressed before the Committee by officials and non-officials alike. This approach, it was stated, will curb the tendency among professionals and salaried class also having income from other sources to evade tax. The Committee feel that it is not quite rational to place the same level of tax burden on professionals/salaried class with limited incomes and fixed span of active life as that placed on business class. The Committee would recommend a dispassionate examination of this matter.
48	4.43 & 4.44	The Committee have received a number of other suggestions for checking tax evasion in general of which the following merit an in-depth study:—

(1) Each acquisition of moveable property of the value of Rs. 5,000 and above should be required to be included in the Income-tax return.

(2) Where the sale/purchase of moveable property requires to be registered with public authority as in the case of motor-cars, it should be communicated by the registering authority to the Income-tax Department like the immovable property.

(3) Each transaction involving payment of a high amount say Rs. two to three thousand should be through cheque.

(4) Possession of cash currency notes of a value higher than a flexible limit to be specified, say, annual income of a person or so, should be deemed to be an offence except in certain special circumstances.

(5) Companies and institutions should deduct tax from rent payments exceeding Rs. 10,000 a year.

1	2	3
		The Committee would not like these suggestions to be lightly brushed aside just because they at first sight appear to be difficult to implement or are likely to pose some problems in implementation. They would like the Department to study them in depth and see whether and to what extent they can in the present form or in a refined form be implemented with a view to curbing tax evasion.
49	4.52	Seeing the work norms now fixed for Survey Inspectors at 15 business premises a day and 5 new constructions in residential areas in big cities and 10 major premises and three new constructions per day in mofussil areas, the Committee cannot but conclude that the Inspectors' output was woefully low in 1979-80 when they surveyed only 2-3 premises per day on an average. The Committee are surprised to note that though the new norms were approved in March, 1980, instructions to this effect were issued by the Department only in January, 1981. The Committee feel that the survey operations have tremendous potential to bring new assessees within the income-tax net. Raising daily output from 2-3 premises in 1979-80 to over 15 in big towns and 10 in mofussil areas in 1981 is a big jump upwards. What is to be seen is whether these new norms are actually observed by the inspectors in day-to-day working and how seriously they go about their work. The Committee would like the Department to monitor the performance of Inspectors individually and survey organisation as a whole and ensure that the results expected of them are forthcoming.
50	4.53	The Committee would like the Department to make a cost benefit study of the survey organisation from year to year to have a clear picture of the success of their operations *vis-a-vis* the expenditure incurred on them.

1	2	3
51	4.67 & 4.68	The Committee take note of the procedural steps now taken by the Ministry to maintain statistics which will show the number of successful searches and concealment of income detected and gains to revenue in such searches. They would like that these statistics showing results of searches and seizures should be critically analysed with a view to making these operations more effective and efficient in the light of past experience. These statistics will also help the Departmental dispel the impression, if it is wrong, that searches are launched indiscriminately.
52	4.69	The Committee however feel that still it would be better for the Department to make a cost benefit analysis of the Intelligence Wing's activities to be able to have a better appreciation of the role played by this wing in detecting and curbing unaccounted assets in concrete terms. This would make these wing more serious and result-oriented in their activities.
53	4.70 to 4.73	Making a case study of searches conducted in Delhi alone the Committee are, surprised to note that out of the 1118 cases in which searches were conducted during the years 1975-76 to 1979-80, in prosecutions have been launched only in 14 cases till December, 1980. In 9 cases the time taken to launch prosecutions was 1 to 2 years, in 1 case 2 to 3 years and in 4 cases over 3 years. The Ministry have not explained as to whether in other cases (1004), investigations have not been completed even after a lapse of such a long time or whether evidence of concealment of income has not been found; in either case, the performance of the Department on this front is nothing to write home about. In fact this can give credence to the common impression that searches and seizures are generally on frivolous grounds.

1	2	3
		Such unconscienable delay in completing investigations, launching prosecutions and bringing the defaulters to book defeats the very purpose of searches and seizures and lowers the Department's prestige in public eye. The Committee would like the Ministry to take a serious view of the Income Tax Departments incapacity to complete investigations in search cases expeditiously and take concrete action to bring the Prosecution wing of the Department to a reasonable level of efficiency. The Committee would also like the Department to draw up a time bound programme to liquidate the pending cases and ensure that in future investigations in search cases are completed within a specified time failing which the matter should be examined by the Board for remedial action.
54	4.78	In the Committee's opinion it is better to take cognizance of cases of undervaluation of a higher order and bring major, though fewer, defaulters to book in the shortest possible time than to waste time and energy on large number of petty cases without achieving commensurate results. If this is not done, the purpose of having the provision on the statute book will be defeated and it would not have any deterrent effect as it claimed by the Department. The Committee would like the Government to review the position with a view to making the law more pragmatic and really deterrent.
55	5.10 & 5.11	The Committee feel that shortage of officer and staff should not be held out as a justification for huge arrears or inefficiency of the Department as the Department are expected to keep the staff strength abreast of the expanding workload. The Committee would like the Department to go into the manpower needs in the light of the studies already made and take conclusive measures early

1	2	3
		to provide adequate manpower at all levels to keep pace with the work. The Committee hope that in view of the likely reduction in the work of the Income tax Deptt., under the budget proposals for 1981-82, the staff needs of the Deptt. will be tailored to sent the new situations.
56	5.12	The Committee find that no direct study as such for reduction in paper work in the Income-tax Department has been done so far. This is an area in which there is great scope for improvement. A thorough streamlining of the system and procedures can bring about a much higher level of output and efficiency without any significant increase in manpower. The Committee would therefore like a comprehensive study of the organisation and methods to be undertaken with a view to achieving efficiency with economy.
57	5.17	It is unfortunate that the friction between two of the most important segments of officers (Group A & B) of the Department has been continuing for a long time and the Department have not been able to do much in the matter. This is sure to have had an adverse affect on the departmental efficiency. The Committee would like the Department to spare no effort to find a solution to this knotty problem at the earliest and bring about cordial relations between the two sets of officers.
58	5.18	The Committee feel that a system of promotion at an early stage of the careers of Group B officers through a limited departmental competitive examination preferably through UPSC or otherwise will not only be good for the officers but also conducive to efficiency and harmony in the Department. The Committee would like the Department to think in this direction.

1	2	3
59	5.25 & 5.26	Office accommodation is an acute problem faced by Income Tax Department and has come in for adverse comments by assessees who too feel greatly inconvenienced on this account. According to the Chairman, Central Board "lack of space in Income Tax Offices is one of the root causes of inefficiency." Accommodation requirements of the Department are stated to be under study by Directorate of O&M. The Committee would like to be informed of the outcome of the study and the action contemplated to provide adequate office accommodation for the Income-tax Offices at various places.
60	5.27 & 5.28	The Committee regret to note that two of the basic needs of staff and offices of Income tax Department have not been met even upto a reasonable level. The Department have not been able to provide residential accommodation to a large number of staff and officers at many places and the transport facilities provided to them for official work are also admittedly inadequate. It is unfortunate that a budgetry provision of Rs. 10 crores for construction of residential accommodation made from year to year since 1975-76 has remained unutilised all through. The Committee strongly feel that in these matters, it is not wise to expose the staff and officers of a sensitive Department like the Income-tax Department to temptations of accepting favours from outside parties. The Committee would like that either Government should themselves construct residential accommodation or they should themselves hire private accommodation and allot it to the employees of the Income-tax Department, especially at places where private accommodation is scarce or too costly for the employees to hire at reasonable rent.
61	5.29	The Committee would also like the Department to meet the transport needs of the Income Tax Officials and provide adequate number of staff

1	2	3
		cars to help formations, by peeling arrangements or otherwise, to enable them to move about in the performance of their official functions without difficulty. The Department should clearly tell their officials not to use the assessees' cars for official or personal work.
62	5.36 & 5.37	The Committee would like that detailed instructions on the nature and manner of rendering assistance to the assessees should be issued by the Department for the guidance of Public Relations units and supervisory officers advised to conduct periodical inspection of the working of these units to ensure that these instructions are carried out by them. Complaints of improper behaviour or indifference to the assessees problems should be taken serious note of.
63	5.38	The Committee would expect the Department to provide adequate accommodation and seating arrangement and reasonable level of amenities for the assessees in the Public Relations units and the Income-tax offices. These are the basic facilities which every assessee visiting an Income-tax office expects and deserves. The head of the office should be held personally accountable for any lapse on this front. Since the Chairman, Central Board, is himself aware of the unpopularity of the Public Relations work among Income Tax Officers, it is incumbent on the Department to see how they can make the Public Relations job more attractive and rewarding so that efficient officers do not grudge on posting there. It should be remembered that this is probably the first and the most frequently approached point of contact between the assessees and the Department and, as such, really, knowledgeable, public-spirited and alert officers should be posted to these units not only to project a good image of the Department but also to assist the assessees in their problems with the various wings of the organisation. Need-

1	2	3
		less to say, sets of latest laws, rules, forms etc. should be available in the Public Relations Units and made available to the assessees on demand without hesitation.
64	5.39	The Committee would suggest that feedback on the reactions of assessees with the working of public relations units at each place be collected by the Department with a view to knowing and removing its shortcomings. This should be done on a regular and systematic basis.
65	5.45 to 5.47	It is unfortunate that a study of the impact of the working of the valuation cell undertaken by a wing of the Income-tax Department itself which must have cost the exchequer a lot of money and time should be discarded as unreliable. Why the corrective was not applied when the parameters of the study were determined or when the study was underway is not clear. The Committee hope that Department would learn a lesson from this for the future.
66	5.48	The Committee would like the Ministry to immediately undertake a detailed and objective study on the impact of the valuation cell to find out whether the cell is cost effective and is producing results commensurate with the expenditure incurred on it. The outcome of the Study may be communicated to the Committee.
67	5.61	A Grievance Cell was set up in 1979 under the personal supervision of the Chairman, Central Board, to deal with complaints from assessees. Similar Grievance Cells had also been set up in 60 Commissioners charges upto December 1980. The Committee would expect similar cells to be set up in the remaining charges early.
68	5.62	The Committee cannot over emphasise the importance of expeditious investigation of com-

1	2	3
		plaints and prompt follow-up action, failing which the assessees are likely to lose faith in the grievance procedure and the procedure would also lose the deterrent effect it is otherwise expected to have.
69	5.63	Now when the need for setting up an independent machinery for vigilance work has after all been realised, the Committee would expect the Department to reinforce the Directorate of vigilance with an independent investigation machinery to deal with vigilance work effectively and efficiently at the headquarters at the earliest as well as field levels at the earliest.
70	5.64	The Committee would like the Commissioners of Income Tax to meet assessees and representative bodies individually or in groups without having junior officers in attendance who may be directly involved with the assessment work against whom the assessees may be having complaints. Unless such exclusive meetings are held in confidence, it is difficult to expect the assessees to open out and bring their complaints to the notice of Commissioners frankly.
71	5.78 & 5.79	The Committee are informed that after a study made into the matter, the Department have decided to accept photostat copies of partnership deeds, but in the case of applications for first registration title deeds of property and dividend warrants, the Department would still like to have original documents and not the photostat copies. The Committee feel that the Department should not in the first instance insist on original title deeds of property, first registration applications and such other documents where photostat copies duly authenticated by Notary Public could serve the purpose. In such cases the Department can always reserve the right to call for original documents

1	2	3
		for their inspection before passing any orders in the matter. A suitable procedure in respect of each document should be evolved depending on its importance taking adequate safeguards against the misuse of the procedure.
72	5.80	In respect of those documents which the Department cannot accept in photostat form in any circumstances—and such documents should be very few—the Income-tax Officer should be required to sign the photostat copy thereof and give them back to the assessee for his custody and use and as a proof of his having submitted the original to the Income-tax Officer.
73	5.81	The Committee feel that there is an imperative need to introduce the most modern methods of record keeping and retrieval in the Department which receives for inspection a legion of valuable documents from assessees all over the country and which is legally and morally bound to keep them in safe custody and produce them whenever needed. Instead of tinkering with the problem by taking isolated measures here and there, what is needed is a systems approach which should make it possible for the Department to get at any file instently from a central place to which it should go back after it is done with. The Committee strongly feel that unless the record system is modernised and made fool-proof, the efficiency in the Department would not improve and the malpractices which the assessees are complaining of would not be eradicated.
74	5.82	The Committee are surprised to learn that though a procedure of annual physical verification of files is in vogue in the Department, the information about missing files is not received at the centre and the headquarters are not in a position to say how many files are found missing in the annual physical verifications in

1	2	3
		the various charges. In the Committee's opinion feedback regarding the number of missing files should be available with the headquarters after annual physical verification to enable them to take remedial measures in the matter from time to time.
75	5.83	The Committee are also informed that the record space in the Income-tax Offices is not adequate. The Committee expect the Department to study the extent of inadequacy of space for records and see what can be done to remedy the situation.
76	5.84	The Committee regret to note that even though Permanent Account Number (PAN) system was introduced as far back as 1971, the Department have, even after a lapse of ten years, not been able to switch over from the old GIR system to the new PAN system in the matter of keeping records. Continuance of old and new systems side by side cannot but create confusion in day to day reference and the sooner the switch-over to PAN system is made, the better it would be for the Department.
77	5.90 & 5.91	The Committee cannot but conclude that the Department and the Commissioners of Income-tax do not have adequate appreciation of the usefulness of forum of the Central Direct Taxes Advisory Committee and Regional Advisory Committees and have not taken adequate interest in holding their meetings. The Committee take note of the measures now contemplated by the Department to activise these committees and hope that the meeting of the Central and Regional committees would hereafter be held twice a year to discuss administrative, procedural and policy matters concerning direct taxes and follow-up action taken in the light of their discussions.