

**14**

**STANDING COMMITTEE  
ON FINANCE  
(2004-2005)**

**FOURTEENTH LOK SABHA**

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

**PRELIMINARY REPORT ON WIDENING  
OF TAX BASE AND EVASION OF TAX  
(2004-2005)**

**FOURTEENTH REPORT**



**LOK SABHA SECRETARIAT  
NEW DELHI**

*February, 2005 / Phalguna, 1926 (Saka)*

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MINISTRY OF FINANCE  
(DEPARTMENT OF REVENUE)

PRELIMINARY REPORT ON WIDENING OF  
TAX BASE AND EVASION OF TAX  
(2004-2005)

*Presented to Hon'ble Speaker on 10.2.2005*

*Laid in Lok Sabha on 25.2.2005*

*Laid in Rajya Sabha on 26.2.2005*



LOK SABHA SECRETARIAT  
NEW DELHI

*February, 2005/Phalguna, 1926 (Saka)*

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## CONTENTS

	PAGE
COMPOSITION OF THE COMMITTEE .....	(iii)
INTRODUCTION .....	(v)

### REPORT

#### PART-A

##### WIDENING OF TAX BASE

Introductory .....	1
Non Agricultural Rural Income .....	14
Rationalisation of Tax Rates .....	28
Exemptions .....	30
Tax Administration .....	33
Monitoring Mechanism .....	35
Fixation of Revenue Targets .....	38
Decentralisation of Power .....	40
Court Cases .....	41
Computerisation Programme .....	42

#### PART-B

##### EVASION OF TAX

Search and Seizure .....	52
Anti-Evasion Efforts .....	62
Accountability of Tax Officials .....	67
Voluntary Disclosure of Income Scheme .....	73
Special Audit .....	74
Statement of Conclusions/Recommendations .....	76

#### APPENDICES

Minutes of the Sittings held on 5 October, 2004 .....	84
Minutes of the Sittings held on 17 January, 2005 .....	87
Minutes of the Sittings held on 18 January, 2005 .....	90
Minutes of the Sittings held on 27 January, 2005 .....	93
Minutes of the Sittings held on 04 February, 2005 .....	95

COMPOSITION OF STANDING COMMITTEE ON  
FINANCE—2004-2005

Maj. Gen. (Retd.) B.C. Khanduri—*Chairman*

MEMBERS

*Lok Sabha*

2. Shri Jaswant Singh Bishnoi
3. Shri Gurudas Dasgupta
4. Shri Bhartruhari Mahtab
5. Shri Shyama Charan Gupt
6. Shri Gurudas Kamat
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23. Shri R.P. Goenka
24. Shri Jairam Ramesh
25. Shri M. Venkaiah Naidu
26. Shri Yashwant Sinha

(iv)

27. Shri Chittabrata Mazumdar
28. Shri S.P.M. Syed Khan
29. Shri Amar Singh
30. Shri C. Ramachandraiah
31. Shri Mangani Lal Mandal

SECRETARIAT

- |                           |   |                         |
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| 1. Shri P.D.T. Achary     | — | <i>Secretary</i>        |
| 2. Dr. (Smt.) P.K. Sandhu | — | <i>Joint Secretary</i>  |
| 3. Shri R.K. Jain         | — | <i>Deputy Secretary</i> |
| 4. Shri R.C. Kakkar       | — | <i>Under Secretary</i>  |

## INTRODUCTION

I, Chairman of the Standing Committee on Finance having been authorised by the Committee to submit the Report on their behalf present this Fourteenth Report on the subject "Widening of Tax Base and Evasion of Tax".

2. The Ministry of Finance (Department of Revenue) briefed the Committee on the subject 'Widening of Tax Base and Evasion of Tax' on 5th October, 2004. Then the Committee took oral evidence of the Experts and the Trade Associations on 17th and 18th January, 2005. The Committee at their sitting held on 27th January, 2005 took oral evidence of the Ministry of Finance (Department of Revenue). The Committee at their sitting on 4th February, 2005, after deliberating on the issues as well as the recommendations contained in the Report at length, decided to present a preliminary report on the subject and also to present the final Report on this subject after seeking views of the public as well as the experts on the subject.

3. The Committee authorized the Hon'ble Chairman to finalise the preliminary Report taking into consideration the suggestions/modifications suggested by some of the members during the sitting and also present the same to the Hon'ble Speaker.

4. The Committee wish to express their thanks to the Experts, the Trade Bodies and the Officers of the Ministry of Finance (Department of Revenue) for the co-operation extended in placing before them their considered views and perceptions on the subjects and for furnishing written notes and information that the Committee had desired in connection with the examination of the subject.

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

NEW DELHI;  
9 February, 2005  
20 Magha, 1926 (Saka)

MAJ. GEN. (RETD.) B.C. KHANDURI,  
Chairman,  
Standing Committee on Finance.

## REPORT

### Introductory

1. The best practice approach to tax reform in developing countries has been to broaden the tax base, levy the tax at reasonable rates, minimise rate differentiation, and have a simple and transparent tax system, which should easily be administered. Broadening tax base enables the tax administration to raise the given amount of revenue at lower tax rates.

2. Broadening the tax base implies two important measures. The first relates to minimising tax exemptions and concessions and the second relates to eliminating avenues of tax avoidance and evasion. This is true of both direct taxes such as personal income tax and corporation income tax and indirect taxes such as customs and excise at the Central level and sales tax at the State level.

3. Considerable research work has been undertaken in identifying the measures to broaden the tax base in respect of both direct and indirect taxes in India. The Tax Reform Committee headed by Raja Chelliah in 1991 identified a number of measures to broaden the tax base. Further work in respect of tax policy was carried out and reported in the Report of the Task Force on Direct and Indirect Taxes chaired by Dr. Vijay Kelkar.

4. The Committee has taken up this subject for consideration in view of the lower assessee base particularly in the category of higher income group, lower tax-GDP ratio even in comparison to developing countries and prevalence of large scale tax evasion by unscrupulous elements.

5. The Committee are given to understand that Government are committed to wipe out fiscal deficit by 2008-2009, which can be achieved only if there is robust growth in revenue collections.

6. The Committee invited the suggestions from experts, trade associations like ASSOCHAM, FICCI and CII and they appeared before Committee to tender oral evidence.



## WIDENING OF TAX BASE

7. The Committee have been informed by the Ministry of Finance (Department of Revenue) that several important steps have been taken by the Government to widen the tax base which are elaborated as under:

### DIRECT TAXES

#### (a) One-by-Six Scheme:

To bring potential taxpayers in the tax net, a major initiative was taken by the Government through the Finance Act, 1998 by introducing One-by-Six Scheme u/s 139 of the Income Tax Act, 1961. Presently, the Scheme is applicable to 4989 urban areas having population of more than 5000 as per the 1991 census. Under this Scheme, a person is statutorily obliged to file his return of income if he fulfils any one or more of the six criteria mentioned therein.

8. The number of persons who have filed their returns under the Scheme in the last five years is shown in Table below:—

#### No. of persons filing returns under One-by-Six Scheme

Financial Year	No. of persons
1999-2000	6,47,699
2000-01	6,16,164
2001-02	30,59,255
2002-03	4,95,557
2003-04	70,861

9. Asked to furnish the reasons for reduction in the number of persons filing tax returns under the one-by-six scheme the Ministry in their note furnished to the Committee stated:

“As a result of introduction of 2/4 scheme with effect from 1.4.1997 and modification of this scheme into 1/6 scheme with effect from 1.8.1998, there was a sharp increase in the number of assesseees as can be seen in the above table. A large number of potential taxpayers started filing returns of income under the 1/6 scheme and when they actually started paying taxes and filing regular

returns of income, there was no further increase in the number of taxpayers. In some of the charges the number of assesseees has declined on account of removal of 'basic telephone' from 1/6 criteria.

The six criteria under the one-by-six Scheme were adopted by the Government for the reason that persons falling under one or more of them would normally be having income above the non-taxable limit. The initial enthusiastic response to the Scheme and subsequent decline in numbers in later years should be seen in light of the fact that the overall assessee base has gone up."

10. The Government has notified the following areas for the purpose of the Scheme:

"All urban areas in the country defined by the 1991 Census of India as comprising:—

- (a) All Places with Municipality, Corporation, Cantonment Board or any Notified Town Area Committee;
- (b) All outgrowths of places referred to in (a) above;
- (c) All other places which satisfy the following criteria:
  - (i) a minimum population of five thousand;
  - (ii) at least seventy-five per cent of male working population engaged in non-agricultural pursuits;
  - (iii) a density of population of not less than four hundred persons per square kilometer.

Urban areas will include 'Towns and Urban Agglomerations, 1991' as listed in Table A4 of the Second Part of Part II-A of Series I of the Census of India, 1991."

#### **Permanent Account Number (PAN)**

11. There is a statutory obligation under section 139A of the Income Tax Act, 1961 and Rule 114B of the Income Tax Rules, 1962 requiring compulsory quoting of **Permanent Account Number (PAN)** in certain high value transactions. This compulsory quoting of PAN will facilitate matching of information relating to financial transactions of the taxpayers collected through various sources which will become useful

for widening and deepening the tax base. The categories of transactions for this purpose are as follows:—

- (i) Sale and purchase of immovable property valued at Rs. 5 lakhs or more.
- (ii) Sale and purchase of a motor vehicle not being a two-wheeler.
- (iii) Time deposits exceeding Rs. 50,000 in a Bank or Banking Institution.
- (iv) Deposits exceeding Rs. 50,000 in Post Office Saving Banks.
- (v) Contract for sale or purchase of Securities exceeding Rs. 1 lakh.
- (vi) Opening of an account in a Bank or a Banking Institution.
- (vii) Making an application for installation of a telephone connection including a mobile phone.
- (viii) Payment to hotels and restaurants exceeding Rs. 25,000 at any time.
- (ix) Payment in cash for purchase of Bank Draft or Pay Orders or Banker's Cheque for a amount exceeding Rs. 50,000 during any one day.
- (x) Deposit in case exceeding Rs. 50,000 with a Banking company during any one day.
- (xi) Payment in cash in connection with travel to a any foreign country of an amount exceeding Rs. 25,000.
- (xii) Making an application for issue of a credit card.
- (xiii) Payment of units of Mutual Fund for of an amount of Rs. 50,000 or more.
- (xiv) Payment of an amount of Rs. 50,000 or more to a company for acquiring shares in it.
- (xv) Payment of an amount of Rs. 50,000 or more to a company or an institution for acquiring debentures or bonds issued by it.
- (xvi) Payment of an amount of Rs. 50,000 or more to RBI for acquiring bonds issued by it.

Total PAN allotted up to 31.12.2004 is 3,67,95,583.

12. Expressing their concerns over the delay on the issue of Corporate PAN, the representatives of the CII stated as under:

“The World Bank, and CII surveys showed that the registration of PAN is one of the major entry barriers today as it can take up to 55 days to register a corporate PAN, and this is something, which needs to be reviewed. We have brought this issue to the attention of the Finance Ministry. Some incidents of multiple PANs are also floating around, which also makes for tax evasion. I think that it needs a review, and we can do much better to help the corporate sector.”

13. The Committee desired to know the effect of introducing the PAN; the Ministry in a note furnished to the Committee stated:

“Compulsory quoting of PAN in respect of certain high value transactions are provided for u/r 114B of the IT Rules, 1962 read with clause (c) of sub-section (5) of Section 139 of the IT Act, 1961. The Central Information Branch (CIB) collects information in respect of certain high value transactions (including those requiring compulsory quoting of PAN) from third party sources. The same is then disseminated to the field formations.

It is, however, not possible to identify and enumerate the specific impact of these two measures in terms of new assesseees, detection of undeclared income and increase in tax collection. Such a cause and effect relationship is neither measurable nor quantifiable. This is so because the increase in tax net, detection of undeclared income and tax collection are a result of several measures *simultaneously* taken by the IT Department, including these to measures. The other measures undertaken by the Department. Include, among others, scrutiny of tax returns, undertaking searches & seizures and surveys in appropriate cases, other deterrent measures such as imposing of penalty, launching of prosecution etc. and measures to promote voluntary tax compliance.

Mandatory quoting of PAN acts as a deterrent to ensure that expenditure/investment made in such transactions is not out of unexplained sources. It is not possible to establish any correlation between increase in tax collection and expenditure relatable to such transactions.”

**(c) Central Information Branch (CIB)**

14. The Central Information Branch (CIB) of the Department collects information from third party sources regarding certain high value transactions. This information is collated and analyzed and subsequently disseminated for the purpose of widening and deepening the tax base.

**(d) Tax Information Network (TIN)**

15. A Tax Information Network (TIN) has been formed as a repository of important tax related information, which can be accessed by the Department. The basic components of TIN are:

1. Information relating to 'high value' transactions coming from the Annual Information Returns (AIR);
2. Information relating to Tax Deduction at Source (TDS) coming from TDS returns filed electronically and manually;
3. Information relating to payment of taxes coming through banks.

16. The information available from TIN will also enable automated identification of potential assesseees and automated selection of cases for scrutiny. The National Securities Depository Agency (NSDL) has been appointed as the agency to host TIN. TIN became partly operational from 21.01.2004.

17. As regards the Online Tax Accounting System (OLTAS) it has been stated that this system has become functional from 1.06.2004. Under this system, 11,903 branches of 32 designated banks authorized to collect direct taxes are transmitting information on tax payments on-line to the National Computer Centre through the TIN.

18. TIN will also enable computerization of TDS functions. Electronic filing of TDS returns has been made compulsory for all corporate deductors and such returns are being filed with TIN from 19.01.2004. TIN is also providing facility for digitization of paper TDS returns. The information in respect of deductees available in TDS returns will be used for widening the tax base, using PAN as the key identifier. From 1.04.2005 onwards, TDS and TCS returns of all corporate and Government deductors will be compulsorily filed in electronic format with TIN.

**(f) Publicity and Awareness Campaigns**

19. In order to educate the taxpayers as to their responsibilities for payment of direct tax, the Department launches various advertisement/ publicity campaigns to promote increased voluntary compliance of tax.

20. Asked to indicate the growth in the number of assesseees as result of publicity and awareness campaigns, and the expenditure incurred thereon the Ministry stated:

- (i) The publicity and awareness campaigns being conducted by the Income Tax Department are designed:
- (a) To educate the existing and potential taxpayers about the tax laws and their responsibilities under the Income Tax Act.
- (b) To inform the taxpayers about the due dates of filing returns and payments of Advance Tax instalments, and
- (c) To clarify those tax laws, provisions and procedures which are not being perceived correctly by the tax payers.
- (ii) Expenditure incurred for the purpose by Directorate of Income Tax (In-charge of publicity), in the last five years is as under:

Financial Year	Expenditure on Newspaper Publicity (In Rs.)	Expenditure on Television Publicity (In Rs.)	Expenditure on other publicity (In Rs.)	Total (In Rs.)
1999-2000	1,94,24,977	3,33,99,820	71,74,249	5,99,99,046
2000-2001	4,40,00,000	31,27,315	28,72,685	5,00,00,000
2001-2002	2,80,39,123	1,64,23,776	34,47,214	4,79,10,113
2002-2003	4,74,19,223	3,53,81,783	26,74,994	8,54,76,000
2003-2004	7,58,22,022	2,52,02,081	1,14,34,611	11,24,58,714
2004-2005 (Till 31.12.04)	3,51,39,344	92,06,768	25,70,826	4,69,16,938

- (iii) The expenditure incurred for publicity purposes can be said to be in proportion to the results achieved as both the number of assesseees and the revenue collection have shown significant increase over the years.

**(g) Annual Information Return**

21. Section 285BA has been substituted by Finance Act, 2004 and provides for filing of Annual Information Return (AIR) by prescribed persons regarding certain high value transactions entered into after 1st April, 2004. This measure is expected to boost the efforts to widen and deepen the tax base. The transactions in respect of which AIR (notified u/r 114E of the IT Rules) will be filed are the following:—

S.No.	Class of persons required to file AIR	Nature and value of transactions
1.	Banks	Cash deposits of Rs. 10 lac and above in a year in any savings bank account maintained by a person
2.	Any company or institution issuing credit card	Payments made by a person against credit card aggregating Rs. 2 lac and above in a year
3.	A trustee of a Mutual Fund or persons authorized to manage such Funds	Investment in a Mutual Fund of Rs. 2 lacs or more by a person
4.	A company or institution issuing bonds or debentures	Investment of Rs. 5 lac or more in bonds or debentures issued by a company or an institution
5.	A company issuing shares through public or rights issue	Investment of Rs. 1 lac or more in a public or rights issue of company
6.	Registrar/Sub-Registrar of Properties	Purchase or sale by any person of immovable property valued at Rs. 30 lacs or more
7.	An officer of the RBI	Investment by a person for an amount aggregating Rs. 5 lacs or more in a year in bonds issued by the RBI

22. The AIRs will be filed from FY 2005-06 onwards with TIN in electronic format, using PAN as the key identifier. The information will be collated party-wise by TIN and will be made available to the Department on-line for use of Assessing Officers.

23. When asked about the number of assesseees, the Ministry in their note furnished to the Committee have stated as below:

“The number of assesseees has increased over the years as seen from the Table below:

**Growth in Number of Assesseees**

(Figures in lakhs)

Financial Year	Number of assesseees as on 1st April of the year	Number of assesseees reduced during the year	Net number of assesseees for the year	Number of new assesseees added during the year	Number of assesseees as on 31st March of the year
1	2	3	4 = (2-3)	5	6 = (4+5)
1998-99	148.46	04.03	144.43	41.67	186.11
1999-00	186.11	04.81	181.30	32.98	214.29
2000-01	214.29	03.21	211.08	36.29	247.37
2001-02	247.37	19.31	228.06	55.68	283.75
2002-03	283.75	13.97	269.78	30.41	300.19
2003-04	300.19	12.18	288.01	13.77	301.78

24. Asked to state specific areas in which shortfalls (in increasing the tax base) were found and follow up actions taken in this regard, the Ministry in their written reply has stated:

“Projection of increasing the tax base to 5 crore assesseees by 31.3.2005 was made in the expectation that by then comprehensive computerization of the Income Tax Department would be completed and measures like filing of Annual Information Return disclosing high value transactions would become operational. Matching of the information contained in the Annual Information Returns with the data already available with the department was expected to result in sharply increasing the tax base.

Computerization of the Department is at an advanced stage. Section 285BA was inserted in the Income Tax Act in 2003 enabling



the Government to prescribe the filing of information regarding high value transactions. However, Section 285BA introduced in 2003 could not be made operational, as the Rules could not be notified. However, by the Finance (No. 2) Act 2004, Section 285BA has been substituted and Annual Information Returns will start flowing in form FY 2005-06 onwards in respect of specified high value transactions. The same will be digitized by National Security Depository Limited (NSDL) and would become available to the department on-line. Matching this information with the returns of income is likely to result in substantial widening and deepening of tax base. However, the benefits of increasing the tax base as a result of implementation of these measures would accrue to the department only from FY 2005-06 onwards."

**(h) Surveys**

25. The Committee desired to know the specific data on the number of surveys done, their fruitfulness in increasing the number of new assesseees, detecting hidden incomes etc., for the last three years and the Ministry in their note furnished to the Committee, has stated as under:

Financial Year	No. of Surveys conducted	Amount surrendered/ disclosed (in Rs. crore)
2001-02	8,054	163.60
2002-03	9,385	193.65
2003-04	7,248	209.49

26. Asked to furnish views on the issue of widening of tax base, Director, National Institute of Public Finance and Policy, in his oral evidence before the Committee, stated as follows:

"The most important measure to broaden the tax base, however, lies in building a proper information system. In fact, even within the country, lack of information flow from banks and financial institutions and the income tax department on the one hand and among the various tax departments on the other, has led to the poor information system. Issuing a permanent account number is only the first step in building the information system. These numbers should be standardised for all tax purposes and proper exchange hand, government departments, which issue the contract, and the tax departments on the other should be institutionalised.

One way to ensure better information flow to the tax department is to mandate tax deduction at source for all income accruing in the banks and on the contracts issued by the government and the corporate sector. Tax deduction at source is considered to be an important way to broaden the tax base in all developing countries and this would be a good way to improve tax compliance. In the case of corporate income taxation, the report of the Task Force on Direct Taxes has identified a variety of measures to broaden the tax base and rationalise the rate structure.

Other important measures needed to be considered to broaden the tax base include rationalisation of tax deduction for housing loans and interest payable thereon, rationalisation of tax exemptions to saving instruments and various other tax benefits for educational and medical purposes. It may also be necessary to look at closely the exemption limit."

27. The witness added:

"In the case of personal income tax, the global concept of income is used to determine the tax base. This includes income accruing from all sources from around the world to individuals. In Indian context, however, exemption of agricultural income has made avenues for evasion and avoidance of the tax. The unscrupulous taxpayers tend to show their non-agricultural income under agricultural income and claim exemption. Similarly, lack of proper information system on income accruing from other countries to residents in India even when there are no tax treaties with these countries has led to the non-inclusion of these incomes."

28. Shri Ravi Kant, Former Chairman, CBDT in his oral evidence suggested as under:

"In the last few years, there has been an expansion in such activities. There are tutorial groups, tutorial classes, there are beauty parlours, there are event managers, there are cyber cafes—all these groups are yielding very high incomes. There are a large number of sections, which are outside the net of income tax, and they are not paying taxes."

29. In reply to a query whether increasing the number itself would lead to rise in the collectible tax or not and whether we should

concentrate on the high level tax-payers or not, the non-official witness suggested:

“Certainly this point is very correct. All these persons, who are joining the tax stream as new taxpayers or who have been joining, are marginal tax-payers. This exercise was not visualised as a step for increasing the tax collections. But the idea was that more and more persons should join the mainstream, the tax-payers’ stream in due course. When their income, as a result of economic activity, does rise, they will automatically be on the network of the income tax. They do not have to think again. So, the idea was to bring them into the fold so that they are the part of the mainstream. I entirely agree with you that this is an exercise, which can be on the periphery of the market. Greater attention has to be paid to the high tax payers to see that adequate taxes, which they ought to pay, are really collected from them. This is an answer to the question, which one of the hon. Members has raised that the number of people who pay more than Rs. 10 lakh as income tax is woefully inadequate. There is no doubt about it. It is a matter of concern for the Income Tax Department that its attention has shifted from the small taxpayers to the high tax payers. All the data collection, information collection and roping in new tax exercises can be mechanised, can be done by computer and can be done by internal information collecting networks rather than by spending too much of time or manpower on them.”

30. Explaining further about the aspect of widening of tax base, the non-official witness added:

“The Government or the Income Tax Department consciously adopted the widening of tax base as one of the prime tasks before them for which several measures were taken now, particularly at this juncture, the climate is right in our country for widening the tax base. More and more people are joining the tax payers network for the reason that there is economic liberalisation in the country and there are vast economic opportunities of which the people can take advantage by investing their money. It is qualitatively a different scenario than the earlier regimes. So, with low tax rates and economic liberalisation and a lot of new economic endeavours, it is in the interest of the citizens to become tax payers and to declare white money. For the last six to seven years, the number has been increasing. It stood at about one crore when I was in the Board and it has crossed three crores now. This has been a result

of several factors. In fact, we must take note of all those factors when we want this movement to be successful.”

31. When it was asked as to why only salary class people were bearing the burden of paying income tax, Shri Ravi Kant, Ex-Chairman, CBDT during evidence stated:

“Sir, a question was asked that it is only the salaried class people, who are bearing the burden of paying income tax. There are two aspects of it. Let me clarify that the bulk of taxpayers are not really the salaried class employees. They are about 25 per cent to 30 per cent of the total taxpayers. I do agree that is a class, which is willingly or unwillingly, paying the correct taxes. There is a tremendous understatement of income sections. It needs to be strengthened. There is no doubt about it. The Income Tax Department has paid attention on them. I want to make it clear that whether the adequate work is being done or not is a different question, but it needs to be done.”

32. Stressing the need for simplification of law & procedure, non-official witness suggested:

“You may recall that income tax law has been simplified and it has been done gradually. A number of complicated calculations which were required earlier are being reduced now. There is still a lot of scope which I will come to later. Then the income tax return forms and procedures have been simplified. These have been an on-going process. The return form was very complicated. Now, it is considerably simplified and the procedures within the Department have also been simplified. Earlier, there use to be 100 per cent scrutiny of income tax return forms. Now, it has changed. There is limited scrutiny. Most of the returns are accepted directly. Then the procedure for payment of tax has also been simplified. The number of branches where tax payments are accepted has increased. Of course, there have been statutory innovations like 1/6 scheme. Earlier, it was 1/4 scheme. Then it was extended to 1/6 scheme. The information network that has been created in the Department has improved. Instead of doing outdoor service, we rely more and more on collecting information from economic service. All these factors have helped in this movement. Still, this three crore is certainly not adequate in a country like India. It is often said that we should not relate this number to the total population because India primarily being an agricultural country and agricultural income being outside the income tax net, it given

a faulty picture. Even making an allowance for that, I think, there is considerable scope to widen the tax base."

#### NON-AGRICULTURAL RURAL INCOME

33. The Government in their written reply on whether the income of middlemen dealing with the agricultural produce is taxable or not and the nature of the tax treatment on rural no-agricultural income, stated:

"Income of middlemen dealing in marketing of agricultural produce is not exempt from tax. Data of the same is not centrally maintained and will have to be compiled from the field formations all over the country involving substantial time and effort.

Income derived from such sources is assessable to tax under the provisions of the Income Tax Act, 1961."

34. Referring the issue of taxing non-agricultural income the non-official witness stated:

"We must remember one thing. What is exempted from income tax is agricultural income as such. But there are a lot of activities in the non-urban areas that are related to agriculture but are not agricultural. There are activities like hiring of equipment like tractors and harvesters and money lending in rural areas. All these activities are related to agriculture but are not agricultural. They are subject to income tax. We do try to rope them in. But if that is taken into account, then we may find that there is plenty of scope of increasing the number of tax payers in the country."

35. When attention of the Secretary, Department of Revenue was drawn to a suggestion on taxation of agricultural income, during evidence he stated:

"It is true that sometimes profits from non-agricultural activities are concealed as agricultural incomes. This is one way of avoidance but how this is going to be tackled, particularly when the agricultural income is State subject under the Constitution and we really do not have any purview there. We need to resolve this kind of structural problem as we go along."

36. The representative of the Ministry of Finance during evidence before the Committee stated:

“Then there was a question relating to agriculture as to whether there would be an average rate of 15 per cent for all. He wanted to know my views in this regard. I think, a uniform rate for everybody could be regressive in the sense that a person with a lower income and a person with a higher income would be paying the same rate. There is an element of inequity in it. I would personally say that this is really not a system which we should think of.”

#### **Category-wise Assesses**

37. The Ministry in a note furnished to the Committee has informed that a category-wise detail of total number of assesseees and the number of tax payers as on 31st December 2004.

#### **Direct Taxes**

38. Category-wise details of total number of assesseees as on 31.12.2004 are not available. The latest information available is for 31.03.2004 which is as under:—

Income-wise Category of assesseees	Number of assesseees (in Lakhs)
Company cases with income/loss below Rs. 50,000/- & Non-company cases with income/loss below Rs. 2 lakhs.	277.35
Company cases with income/loss of Rs. 50,000 and above but below Rs. 5 lakhs & Non-company cases with income/loss of Rs. 2 lakhs and above but below Rs. 5 lakhs.	18.76
Company and Non-company cases with income/loss of Rs. 5 lakhs and above but below Rs. 10 lakhs.	4.08
Company and Non-company cases with income/loss of Rs. 10 lakhs and above.	1.45
Search and Seizures Assessments.	0.14
<b>Total</b>	<b>301.78</b>

39. When the attention of the representative of the Ministry was drawn to a fact that in a Country with more one billion population, only 90,000 are declaring their income which was more than 10 lakhs, the representative of the Ministry of Finance during evidence stated:

“The other question which he asked was about the limited number of assesseees who indicate an income of Rs. 10 lakh or more. I am sure we are all in agreement with the view that it cannot be so low. It must be much more. As far as we can see, there are only some ways in which we can do it. One is, building this kind of information system where all customers are indicated so that we get to know more and more about what kind of taxes certain people are paying in certain areas, which can be fed into other systems also. As we build up that information system and as the annual information returns also start coming in, once we start using that entire information system very carefully plus also the various other points that have been made by the hon. Members, such as the flamboyant use of mentioned by several Members here and by you, Mr. Chairman, that we need to focus on the top 10-15 per cent who as someone mentioned very correctly using consultants and CAs manage to, you cannot call it evasion, avoid tax. That is the problem, which we really do face. There are many structural problems within our law itself; within the exemption structures, in the various kinds of provisions that are made, which can be very efficiently and cleverly used. So, this is the problem, which I think is structural and we need to look at the structures very carefully. We would certainly like to do some such exercise after this present rush for the Budget is over.”

40. As regard the Corporate Income-tax rate, Director NIPFP during evidence stated:

“On the issue of corporate income tax, I think, it is important to reduce the corporate income tax rate to align with the personal highest marginal rate of income tax rate. Now, it is 35 per cent. In fact, along with the surcharge and other levies, it comes to 36.75 per cent or something like that. But then, it is important that it should aligned with the highest marginal tax rate of personal income because in the process you will make and gain as you open up. There is no need for us to make a distinction between the foreign corporations and Indian corporations. I think, the treatment should be uniform. But at the same time, for the very liberal depreciation allowance that you are giving to the

corporation, right now it is 25 per cent, the Kelkar Task Force Report recommended that it should be reduced to 15 per cent."

41. Asked to furnish steps initiated by the Government in bringing the following under the tax net:

- (i) Public using five star culture
- (ii) Private School—bringing the trustees as well as parents sending their Children in such Schools.
- (iii) Nursing homes avoiding tax in the name of researches
- (iv) Lavish expenditure on marriages or Birthday parties
- (v) Foreign traveling
- (vi) Prosperous farm houses
- (vii) Wholesale trade of agricultural goods or commodities
- (viii) Increasing tax on corporate houses in the Country.

42. The Ministry in a note furnished to the Committee stated:—

- (i) Public using five star culture

Under Rule 114B of the IT Rules, 1961, persons making cash payments in hotels and restaurants against bills exceeding Rs. 25,000 are required to quote PAN compulsorily. The Department also carries out enquiries in respect of expenditure incurred in such places on social occasions like marriages, etc.

- (ii) Private School—bringing the trustees as well as parents sending their children in such schools

All private schools are assessable to tax under the Income Tax Act, 1961, unless the income of the school is exempted from tax either under sub-clauses (iiia), (iiib), (vi) of Section 10(23C) or Section 11 of the Act. The trustees (running the educational institutions) as well as parents sending their children to such schools are assessable in their individual capacity and their incomes are not exempt from tax.

- (iii) Nursing homes avoiding tax in the name of researches

Nursing homes carrying out scientific research are entitled for deduction u/s 35 of the IT Act. Under Section 35(1)(i), deductions



can be claimed in respect of expenditure on scientific research related to own business of the assessee. Under Section 35(1)(ii), weighted deduction is available to a donor in respect of donations made to the approved Association/Institution carrying out scientific research. The income of the approved Association/Institution is exempt u/s 10(21) of the IT Act.

The Government after scrutinizing the research activities of the applicant gives the approvals. The genuineness of scientific research carried out by the applicant as well as the amount of donation received and utilized for the purpose of scientific research are examined before granting such approval. The applicant is also required to maintain separate accounts for its research and non-research activities. The approval is given only for three years at a time, which is renewed, on an application made for the purpose, only after detailed scrutiny.

(iv) Lavish expenditure on marriages or Birthday parties

Income Tax Act, 1961 does not levy any tax on expenditure of any form other than unexplained expenditure, which is deemed to be income. This equally applies to expenditure on marriages, etc. Section 133A(5) specifically empowers Income Tax Authorities to carry out enquiry into expenditure on social occasions like marriages, etc. and any undisclosed income found as a result of such enquiry is brought to tax. The Income Tax Department has in the past few years carried out enquiries in respect of several cases involving lavish expenditure on marriages, etc. For instance between F.Y. 2001-02 and 2003-04, the Department had carried out enquiries in 75 such cases resulting in disclosure of Rs. 43.58 crores. Similar enquiries have been undertaken in the current financial year.

(v) Foreign traveling

Income Tax Act, 1961 does not levy any tax on expenditure of any form, other than unexplained expenditure, which is deemed to be income. This equally applies to expenditure on foreign travel. However, under Section 139(1) of the IT Act, persons incurring expenditure for themselves or any other person on travel to any foreign country are required to file their returns under one-by-six scheme, if they are not otherwise filing regular returns. Further, PAN has to be compulsorily quoted in respect of payment in cash

in connection with travel to any foreign country where such expenditure exceeds Rs. 25,000 at any one time.

(vi) Prosperous farmhouses

Any income derived from any building constructed on a land, which is not assessed to land revenue and which is situated within the jurisdiction of municipality or cantonment board or falls within 8 kms of the local limits of any municipality or cantonment board, is not treated as agricultural income. Hence, the income generated from such farmhouses would not be treated as agricultural income and would be taxable.

(viii) Wholesale trade of agricultural goods or commodities

Income arising from wholesale trade of agricultural goods and commodities is chargeable to tax. However, co-operative societies engaged in marketing of agricultural produce grown by its members are eligible for 100% deduction of such income u/s 80P of the IT Act. Presently there are 24 commodity exchanges in India, which are under the administrative control of Ministry of Consumer Affairs. Out of these, 21 are regional exchanges while the three national exchanges are the National Commodities Exchange of India Ltd. (NCDEX), Mumbai, the Multi-Commodity Exchange of India (MCEX), Mumbai and the National Board of Trade (NBOT), Indore. While the first two exchanges deal mainly in steel, bullion, other metals, etc., the exchange at Indore deals mainly in soyabean oil.

The Income Tax Department has since obtained the lists of brokers operating in these exchanges. The returns of income filed by these brokers are being verified and some of these cases have been picked up for scrutiny.

(viii) Increasing tax on corporate houses in the Country

Since the budgetary exercise for 2005-06 has already commenced, the comments on whether such working has been done by the Government can be given only after the presentation of the Finance Bill, 2005."

### **Indirect Taxes**

43. As regards the steps taken towards widening of tax base in Indirect tax area the Committee have been informed that on the indirect

tax front, the process of reduction in the dispersal, rationalisation and simplification of duty rates is carried forward to reduce the transaction and compliance costs. During 2000-2001 the system of central excise was overhauled with the introduction of a uniform Central Value Added Tax (CENVAT) of 16% *ad valorem* on all manufactured goods with few exceptions. In addition to CENVAT, three rates of special excise duty of 8%, and 24% respectively were prescribed. These applied to certain specified goods like aerated water, tobacco products, motor vehicles, cosmetics etc. Rules and procedures for availing of CENVAT credit were made short, simple and transparent. All inputs (except high-speed diesel and motor spirit) and all capital goods were made eligible for input tax credit. Also, all finished goods (except matches) were brought under the CENVAT credit scheme. The basis for payment of excise was changed to "transaction value" instead of "deemed wholesale price". Excise duty on cigarette was increased.

44. In the area of customs duty, the objective has been to reduce the high levels of tariffs gradually, so as to reduce the cost of production and improve the competitiveness of the user industry while allowing reasonable time to the domestic industry to adjust against competition from imports. The move towards ASEAN levels of tariff was reassured with peak protective customs tariff rate scaled down from 40% to 35% *ad valorem* and reducing the existing five major *ad valorem* rates of basic customs duty to 4 *ad valorem* rates. 5%, 15%, 25% and 35%. Several consumer goods and a large number of agricultural products were placed on the free list for imports effective from April 1, 2000. These goods were subject to the peak customs tariff rate of 35% plus surcharge. Customs duty was raised on agricultural and horticultural items and natural rubber.

45. The Committee desired to know the specific areas where shortfalls were noticed and follow up action taken by the Government, the Ministry in a note furnished to the Committee stated:

"The revenue collection from indirect taxes has achieved 99.69%, 93.71%, 83.21%, 92.28% and 95.61% of BE in 1999-2000 to 2003-04 respectively. The revenue collection from indirect taxes has achieved 101.66%, 97.02%, 95.96%, 95.45% and 98.35% of RE in 1999-2000 to 2003-04. There was negative growth of 2.08% in revenue collection from indirect taxes in 2001-02 over last year. However, the overall revenue has registered the growth of 17.09%, 5.63%, 13.04% and 11.93% in 1999-00, 2000-01, 2002-03 and 2003-04 respectively over last year.

The customs revenue has achieved 96.13%, 88.74%, 73.45%, 99.25% and 98.51% of BE in 1999-00 to 2003-04 respectively. Similarly, the customs revenue has achieved 101.30%, 95.50%, 93.28%, 98.58% and 98.51% of RE in 1999-00 to 2003-04. There was negative growth of 1.81% and 15.30% in customs revenue in 2000-01 and 2001-02 over last year. However, the customs revenue has grown by 19.06%, 11.38% and 8.39% in 1999-00, 2002-03 and 2003-04 respectively over last year.

As regards excise, the revenue realization has been 96.93%, 96.17%, 88.78%, 90.02% and 93.92% of BE in 1999-00 to 2003-04 respectively. The excise revenue has achieved 101.48%, 96.95%, 97.36%, 94.19% and 98.41% of RE in 1999-00 to 2003-04. However, the excise revenue has registered the growth of 16.26%, 10.70%, 5.88%, 13.44% and 10.44% in 1999-00 to 2003-04 respectively.

46. However, in service tax, the revenue realization has been 92.52%, 118.77%, 91.72%, 68.40% and 98.64% of the BE in 1999-2000 to 2003-04 respectively. The Service Tax revenue has achieved 106.40%, 118.77%, 91.72%, 82.44% and 95.07% of RE in 1999-2000 to 2003-04.

47. Asked to furnish reasons for non achievement of the target, the Ministry has stated that as concerned excise duties, the main reason for slow growth in excise revenue is the reduction in number of basic *ad valorem* rates, which was 3 basic rates + 3 SED rates during 1999-00, was gradually reduced to single rate 16% CENVAT + 1 SED rates during 2004-05. The peak basic rate *ad valorem* was also reduced to 16% CENVAT + 8% SED during 2003-04 from 24% Basic + 16% SED during 1999-00. Thus as such the tariff measures did not result in adequate short-term growth.

48. Excise revenue comes mainly from manufacturing sector, which comprises of Non-SSI and SSI sectors. Increase in the SSI output does not result in proportionate increase in excise revenue because of the excise duty exemption available to SSI units. The share of SSI sector in excise revenue actually declined from 3.3% in 1999-00 to 2.3% in 2003-04. This was mainly due to the reason that the turnover limit for full excise exemption for SSI units was raised from Rs. 30 lakhs to Rs. 50 lakhs in 1998-99 and again to Rs. One crore in 2000-01. In view of these changes, the increase in production in the SSI sector did not result in increase in excise revenue.

49. However, it is expected that in future there would be appropriate growth, due to enhancement in tax base and in levels of tax compliance in excise sector.

50. The main reason behind the declining trend in customs revenue is the number of major basic *ad valorem* rates, which was 5 during 1997-98, were gradually reduced to 3 during 2004-05. The peak basic rate *ad valorem* was also reduced to 25% during 2003-04 from 40% during 1999-00. Further, it has been reduced to 20% since 09.01.2004. With effect from 09.01.2004 Special Additional Duty (SAD) was also abolished. Besides, there are significant amounts in duty foregone under various export promotion schemes and drawbacks. These are Rs. 18166 crore, Rs. 20705 crore, Rs. 26836 crore, Rs. 39571 crore and Rs. 41226 crore during the financial years 1999-2000, 2000-2001, 2001-2002, 2002-2003 and 2003-2004 respectively, which affected the customs revenue significantly in above periods.

51. With regard to rate in the excise duty, the Secretary during evidence stated:

“We have brought down the number of rates considerably. It has come down in the case of central excise from 19 rates of duties in 1993-94 and we have brought it down to three rates now. The CENVAT credit rules have been liberalised and even in case of procedural violations, it cannot be denied. Many controversies in central excise valuation have been minimised by implementing the transaction values in place of notional wholesale price.”

52. The Ministry in a note furnished to the Committee has stated that the Budget during 2004-05 had brought in following measures to augment tax compliance in Indirect Tax area:—

“A number of steps have been taken to augment tax compliance. These include rationalization of tariff structure, review and withdrawal of tax exemptions to the extent possible, plugging leakage of revenue through strengthening anti-smuggling and anti-evasion measures, monitoring and disseminating international prices of imported commodities and simplification of tax collection procedures to improve tax compliance. An education cess at the rate of 2% on the aggregate of duties of customs, excise and service tax has been imposed during the Budget 2004-05. Besides, other measures are being taken during the current year to augment the

tax collection both in Customs and Central Excise areas, which are as follow:—

(i) Customs

So far as customs duties are concerned, in view of policy of gradual reduction in import duty rates, scope for raising revenue is rather limited. Further increase in revenue can be expected only from removal of specific exemptions from basic customs duties and withdrawal of CV duty exemption. In Budget 2004, CVD exemption has been withdrawn in a number of cases.

(ii) Excise

The policy now is to remove exemption and move towards a mean CENVAT rate. With a view to this:

- 8% excise duty has been imposed on contact lens and playing cards.
- Excise duty has been increased from 8% to 16% on cakes and pastries, plastic, insulated ware, vacuum flasks, scented supari, laboratory glassware, monochrome television receiver, populated printed circuit boards for monochrome television receivers, imitation jewellery and candles.
- Excise duty has been increased from 8% to 12% on iron and steel.
- Excise duty of 16% has been imposed on specified parts of pre-fabricated buildings, such as blocks, slabs, concrete beams & stairs and parts of clocks and watches of retail sale price not exceeding Rs. 500/- per piece.

(iii) Service Tax

The objective is to move ultimately to integrated goods and service tax and to broaden the service tax base. With a view to this,

- The rate of Service tax has been increased from 8% to 10%, along with provision of credit across goods and services.
- In Budget 2004-05, thirteen new services have been added to the existing list of taxable services. Thus, at present, there are 71 services under the coverage service tax net.

- The scope of existing services has been expanded. Commission and installation of plant, machinery or equipment have been expanded to include 'erection' thereof, and Stock brokers to include sub-brokers. Cable operator service is proposed to include 'Multi-System Operators (MSO). Business auxiliary service is to include service relating to procurement of inputs, production of goods or provision of services on behalf of clients. Financial services has been expanded and Tour operator services are to include such package tour operators who organize tours involving any mode of transport.
- Exemption have been removed relating to tax payable on services of Safe deposit lockers and Vaults Maintenance or repair of computers under a maintenance contract, Mandap Keeper services provided by Hotels, Commission agents under Business auxiliary service (other than those dealing in agriculture produce), Broadcasting service provided by Cable Operators and Non-package tour.

53. Asked to furnish the details with regard to services that were subjected to tax as on date and perspective planning in brining more revenue under tax net, the Ministry in a note furnished to the Committee stated:

"List of existing taxable services

**Service description**

1. Stock broker
2. Telephone
3. Pager
4. General Insurance
5. Advertising agency
6. Courier agency
7. Consulting engineers
8. Customs House agents
9. Steamer agents
10. Clearing & Forwarding agents
11. Manpower Recruitment agency

12. Air Travel Agent
13. Mandap Keepers
14. Tour operator
15. Rent-a-cab operators
16. Architect
17. Interior decorators
18. Management Consultancy
19. Chartered accountant
20. Cost accountant
21. Company secretary
22. Real estate consultancy
23. Security/Detective agency
24. Credit rating agency
25. Market research agency
26. Underwriting services
27. Scientific and technical consultancy
28. Photography service
29. Convention service
30. Leased circuits
31. Telegraph service
32. Telex service
33. Facsimile service
34. On-line information and database access and/or retrieval services
35. Video tape production service
36. Sound recording service
37. Broadcasting service
38. Insurance auxiliary service
39. Banking and other financial services
40. Port services



41. Authorized service station for motor vehicles
42. Beauty parlours
43. Cargo handling service
44. Cable operators
45. Dry cleaning services
46. Event management
47. Fashion designers
48. Health club and fitness centers
49. Insurance auxiliary services relating to life insurance
50. Rail travel agent
51. Storage and warehousing
52. Business auxiliary service
53. Commercial training and coaching service
54. Erection commissioning and installation
55. Franchise service
56. Internet cafe
57. Repair and maintenance
58. Technical testing and certification
59. Airport services
60. Air transport
61. Business exhibition
62. Road Transport
63. Construction
64. Intellectual property service
65. Opinion poll
66. Outdoor catering
67. Programme producer
68. Survey and exploration
69. Pandal and shamiana contractor
70. Travel agent
71. Forward contract

54. Asked to indicate the measures taken to expand the service tax base the Committee have been informed about the following measures:

- Expansion of the scope of existing taxable services
- Imposition of service tax on new services
- Ensuring better tax compliance by the existing tax payers by following measures,—
  - (i) Ensuring that all potential service taxpayers are registered with the department and they pay taxes.
  - (ii) Computerization of service tax registration and scrutiny of returns filed by the assessee is being developed.
  - (iii) Strengthening of audit set up. Under service tax self-assessment scheme, the primary monitoring mechanism available with the department is through audit checks based on modern auditing and accounting techniques. The audit system is being strengthened by providing more manpower to audit branches and training them especially in accountancy and computer applications.
  - (iv) Drive to recover realizable arrears: This involves identification of specially those revenue arrears, which are of higher quantum and are legally realisable in the immediate future and taking action to realize the same.
  - (v) Default in monthly/quarterly duty payment: Close monitoring of default in monthly excise or service tax payments and taking steps to recover the arrears of revenue with interest.
  - (vi) Speedier disposal of litigation: Special drive is being undertaken to dispose off cases in time bound manner.

55. The Ministry have informed that in 2004 Budget, 13 new services were included in the list of taxable services as a measure to expand the service tax base.

56. As regard, the service tax to GDP ratio the Ministry has stated that it is only about 0.28% at present, even though the services sector contributes to over 50% of the GDP. Hence it is primarily in the area of service tax that there is scope for expanding the tax base further. In this year's budget 2004-05, a number of new services have been brought under the service tax net, as part of the measures to broaden the tax base.

57. The Ministry in a note furnished to the Committee has further informed that the Government is committed to the broadening of tax base in indirect taxes and raise the tax-GDP ratio, as far as possible. However, Government has also been using taxation as a policy tool/instrument to achieve its social objectives by grant of several customs and excise duty and service tax exemptions. To illustrate, excise duty exemptions have been granted for—

1. Small Scale Industrial (SSI) units
2. supplies to defence personnel and for defence purposes
3. agricultural machinery
4. fertilizers and specified inputs for fertilizers
5. life saving drugs and medicines
6. KVIC produces
7. Handlooms
8. Power looms, etc.

58. It would be difficult to broaden the tax base by removal of such exemptions as they serve some definite policy objectives. Thus the scope for widening tax base in Central Excise is rather limited.

#### RATIONALISATION OF TAX RATES

59. The basic taxation rules in OECD countries or any other country provide for taxation of global income from all source in the case of resident and similarly for taxation of income of any non-resident which is sourced in that country. There may be different methods of taxing a particular head of income in OECD countries which may vary from country to country. But the basic taxation issues regarding taxation of global income in the case of a resident and the income sourced in that country in the case of non-resident are applied more-or-less universally.

60. The Ministry has furnished the following reasons for high tax-GDP ratio prevalent in OECD countries:

- (i) In India, majority of the population survives on agricultural income, which is not subjected to taxation.

- (ii) Indian industry, being in the nascent stage, has been provided various tax exemptions under Chapter VIA of the Income Tax Act. Income from activities like infrastructure, telecom, transport, power generation, etc. is exempted from taxation. Thus, though these businesses contribute to GDP, they do not contribute to tax.

61. The representative of the FICCI during the oral evidence suggested:

“We should reduce the taxes on one side, and on the other, we need to improve our tax base. For that some suggestions are there. For example, we need to do simplification and rationalisation. We need to redesign our fiscal policy and make them compatible with the core economic goals of promoting efficiency, equity and high quality growth. Today, we have 3.5 crore assesseees. We need to increase this number to 15 crores. Even in USSR, when they had to do it, they gave exemptions upto 45 lakhs. Then only the tax was 30 percent. Today, if you give exemption upto Rs. 1 lakh, you can bring the person back to 30 per cent net. If you really ask me, there is no incentive to small salaried people. To start with, first of all, the exemption of Rs. 1 lakh should be given to this category. Our suggestion is that from 1 to 5, it should be at least, shall we say 5 percent, and from 5 to 10, it should be 10 per cent. After that, they can have 30 percent. What we suggest is that from 1 to 5, they should have a flat rate of 5 per cent. Further they can have 10 per cent, and then they can go to 30 per cent after 10. Otherwise, we will not be able to increase the tax base... Most of the services are not included. Our recommendation is that all the services should be included barring essential services. On the agriculture front, if the income is over Rs. 5 lakh, a flat rate of 15 per cent should be charged.

Otherwise, it gives an opportunity for people to create more black money. So, it is very important that we should try and at least have a flat rate of 15 per cent for agricultural income of Rs. 5 lakh and above. The tax rates for individuals are very high and so we suggest that it should be brought down to 30 per cent. On the corporates also, we suggest that it should be brought down to 30 per cent.”

## EXEMPTIONS

62. As regards the removing of various exemptions, concessions and incentives that are available to individuals and corporates, the Ministry in a note furnished to the Committee stated:

“As regards Direct Taxes since the budgetary exercise for 2005-06 has already commenced, the comments on this issue can only be given after the presentation of the Finance Bill, 2005.

In respect of Indirect taxes the Government is committed to the broadening of tax base, raising the Tax-GDP ratio and phasing out various exemptions and concessions to the extent possible.”

63. Referring to various exemptions a non-official witness during evidence stated:

“I think one of the main causes for increasing litigation in the Income Tax Department is the plethora of exemptions that are being given. What happens is this. Whether a case falls under the exemption category or not is to be decided by the Income Tax Officer who have not expert knowledge of that particular field with the result that when they are in doubt, they will disallow it and this increases the litigation cases. So, we need to gradually remove these exemptions and if that necessitates the lowering of taxes, we should do that because the resultant income tax will compensate the loss of revenue which may occur in a short term.”

64. Asked to furnish their views on the necessity of exemptions, the representative of the FICCI during evidence, stated:

“We have a large number of exemptions right now under the Income Tax Act, 1961. We would recommend that these be reviewed by setting up a Task Force comprising both of Government and industry to see the relevance. Many of these have come up over the last 40 or 50 years and some of them may have lost their relevance right now.”

65. On the issue of exemption the representative of Ministry of Finance during evidence stated:

“Another point he raised was whether exemptions will lead to more collection of taxes or not. Many other hon. Members also have raised this point. Exemption is intended to serve a particular

purpose. But if it is not going for that purpose—like there was mention of nursing homes doing research work or schools and educational institutions making a lot of money but getting tax cover—then I mean to say that we need to carefully monitor these kind of exemptions. I certainly take the advice of the hon. Members and convey to the hon. Minister because I think, these are areas where the hon. Members of Parliament are generally concerned.”

### **Publicity and Awareness Campaigns**

66. The Committee desired to know the actual achievement made towards the growth of assesses after launching publicity and awareness campaign, the Ministry in a note forward to the Committee, stated:

“The Directorate of Publicity & Public Relations undertook publicity and awareness campaign of service tax in print media and television channels during the financial years 2003-2004 and 2004-2005. The publicity campaign was targeted at the service providers of unorganised sector. The tax-friendly measures like: (i) no need of maintaining separate records, (ii) no need of having a Chartered Accountant to maintain the records, (iii) service tax returns are so simple that same can be filed by the service providers themselves, (iv) the Service Tax returns can be filed on internet even during holidays from any place etc. were publicised. The service providers of unorganised sector were not aware as to where and when the service tax is to be paid. Through advertisements, the service providers were informed that the service tax is to be paid to the Central Excise Department by 25th of the month following the month/quarter in which the payments for the service provided are received. Penal provisions for non-payment of service tax, not getting registered and non-filing of returns have also been publicised. As a result of campaign 1,52,000 new service providers obtained registration during the financial year 2003-2004.

During the months of October and November, 2004, Hon’ble Finance Minister approved a scheme under which special camps were organised throughout the country for on-the-spot registration. The scheme also provided that if service providers register themselves during these months, no penalty will be levied and their declarations will be accepted. This facility was publicised in various newspapers as well as T.V. channels. Special camps for on-the-spot registration were organised throughout the country and advertisements indicating location of the camps, dates and help-

line telephone numbers were advertised in local newspapers in English as well as in regional languages. Due to publicity campaigns and special camps, a total of about 1.97 lakh new service providers have obtained registration upto November 2004. An amount of Rs. 32 crore as service tax and Rs. 3 crore as interest was paid by these new registrants during the months of October and November, 2004.

From the above, it is evident that publicity and awareness campaign has contributed substantially in widening of tax base."

67. As regards the expenditure incurred in indirect taxes on publicity and awareness campaign during the last 5 years on newspapers and television, the Ministry has furnished the following figures:-

S.No.	Year	Expenditure on Publicity (Rs. Lakh)	
		Newspapers	Television
1.	2000-2001	34.97	Nil
2.	2001-2002	33.59	Nil
3.	2002-2003	85.99	Nil
4.	2003-2004	103.34	413.38
5.	2004-2005 (upto December, 2004)	424.73	249.32

#### **Growth in number of Assesseees**

68. The Committee desired to know whether expenditure incurred on publicity had achieved the desired results, the Ministry has stated:

"In terms of growth of assessee base the results are satisfactory. The result achieved is commensurate with the expenditure incurred for publicity purposes, which is evident from the fact that 1,52,000 new assesseees took registration during the financial year 2003-2004 and 1,97,254 new service providers took registration during 2004-05 (upto November, 2004).

The collection from service tax upto December, 2002 was Rs. 2,980.44 crore, Rs. 5,084.46 crore upto December, 2003 and rose to Rs. 8,219.56 crore upto December, 2004."

69. The Ministry in a note furnished to the Committee has informed:

“In Central Excise the total number of assesses registered with the Department as on 30.9.2004 is 106168.

Service Tax: Total number of assesseees registered with the Department as on 30.11.2004 is about 6.18 lakhs.

Customs: The concept of assesseees as in Central Excise—registered and functioning under the control of the Department, is not applicable to Customs. The parallel in Customs would be IEC licence holders. Each holder of an Import-Export Code (IEC) licence can legally engage in the business of export or import. Such details would be available with the Directorate General of Foreign Trade under the Ministry of Commerce and Industry. Customs also do not maintain data relating to the number of taxpayers, and to furnish such data reports would have to be called for from all the field formations throughout the country, which is not possible within the short time available.”

70. As regards to arranging publicity and awareness campaign a non-official witness while tendering oral evidence suggested:

“...We should have education camps and extension counters where small taxpayers can be educated on how to fill up the return forms. They can be processed during the duration of the camp itself. In places where there is a large concentration of income tax payers, we can go there and help them. We used to do that. In Bhilai Steel Plant, we did that. There are 48,000 income tax payers now. Earlier, there were only 11,000 tax payers. It is because we had a camp there for two or three days. We continued to have the camp for two or three years and we saw that the number of tax payers has increased tremendously.”

#### TAX ADMINISTRATION

71. Asked about the measures the Government have taken towards having an effective and honest tax administration with humane outlook, the Ministry in a note stated:

“In the area of Direct Taxes the Grievance Cell functioning under a Commissioner of Income Tax is expected to redress the grievance of the taxpayer within a month of receipt of the application.



However, if the grievance is not redressed within one month, the taxpayer may make an application to the Regional Grievance Cells under the CCIT and if the grievance still remains to be redressed, he may make an application to Central Grievance Cell functioning directly under the Chairman, Central Board of Direct Taxes. The Director (Hqrs.) at the Central Board of Direct Taxes has been vested with the authority to call for relevant records connected with grievances pending from more than three months and to take decision/action with the approval of the Head of the Department/Chairman, CBDT.

Recently, a call centre named Aayakar Sampark Kendra (ASK) has been launched from 1st July 2004 to provide phone-in-assistance for taxpayers information and services. For this service the taxpayers have to dial 0124-2438000. The Aayakar Sampark Kendra provides: (i) static information through front-end IVRs; (ii) forms on demand, through fax or e-mail; (iii) information in respect of specified services from departmental data bases or by linking the service providers, *viz.* UTIISL/NSDL; and (iv) Front office for receiving grievances, directing them to the concerned officers, making available compliance data to the taxpayers and reports to appropriate levels of the Department."

72. As regards to Indirect Taxes, the Ministry has stated that after the specific steps *viz.* Dissemination of tax information on web, PAN related services, electronic credit of refunds, electronic filing of TDS etc. taken by the Ministry to reduce interface between the taxpayers and the tax collectors, the discretion vested in the officers has been minimized. The large-scale computerization and facility of e-filing of returns in indirect taxes has brought about further transparency and openness. The scientific technique of audit, namely, EA-2000 has been adopted which lays down a detailed procedure for audit utilizing manpower resources more effectively.

73. In the area of Service Tax, the basic philosophy of Service Tax administration has been to rely more and more on voluntary tax compliance. There are no harsh provisions like arrest and prosecution provided for in the law. The tax is being administered in taxpayer friendly manner and camps and interactive sessions are being held with the associations and chambers to assist the taxpayers and resolve any disputes between the department and taxpayers. The assessee is not burdened with responsibility of maintaining cumbersome records for the purpose of tax payment and the procedure of assessment has been done away with.

## MONITORING MECHANISM

74. As regard the existing monitoring mechanism at Board level and Commissionerate level to monitor the working of field officers with special reference to the area of widening of tax base and evasion of tax, the Ministry stated:

### “DIRECT TAXES

- a. **Monitoring of Search & Seizure:** The Director General of Income Tax (Investigation) authorizes search and seizure action. Subsequently, an appraisal of the main findings is reported in the “Appraisal Report” which assists the Assessing Officer in framing the assessment and determining undisclosed income. The preparation of the Appraisal Report is monitored and approved by the Director of Income Tax (Investigation). The Board monitors all cases where seizure/expected concealment exceeds Rs. 5 crore.
- b. **Monitoring of Search and Seizure Assessments:** Assessments of search & seizure cases are completed by Assessing Officers after obtaining approval of the Additional/Joint Commissioner of Income Tax. The Commissioner of Income Tax ensures that proper line of investigation is followed. In important cases, the progress of post-search enquiry/investigation is also monitored at the Board level.
- c. **Monitoring of Tax Evasion Petitions:** All Tax Evasion Petitions (TEPs) are categorized on the basis of amount of tax alleged to be evaded. The TEPs are monitored according to the monetary limits by DGIT (Inv), DIT (inv.) and the Addl. Jt. DI (Inv.). The Board also monitors selected categories of TEPs such as VIP References, cases where some other Ministry/Department has called for a report and cases having All India ramifications.
- d. **Monitoring of Surveys:** Surveys are carried out by the Department u/s 133A of the IT Act to detect undisclosed income. Survey operations u/s 133A can be carried out only after approval of the Jt./Addl. Director, Jt./Addl. Commissioner of Income Tax. After the conclusion of the survey, a report is to be submitted to the Commissioner of Income Tax. The survey operations are monitored by the Addl. CIT/Addl. DIT (Inv.)

- e. **Monitoring of Scrutiny cases:** The Central Board of Direct Taxes lays down guidelines for selection of cases for scrutiny. These cases are monitored by the Range Additional/Joint CsIT. The CsIT also carry out review of the cases completed under scrutiny.

#### INDIRECT TAXES

75. **Central Excise and Service Tax:** The Directorate General of Anti-evasion and Directorate General of Audit are the central agencies for detection and subsequent monitoring of cases of evasion. Directorate General of Service Tax is responsible for monitoring various activities relating to Service Tax. The details are indicated below:

- (a) **Anti-evasion:** The DGCEI receives monthly Anti-Evasion Reports from the Commissionerates which reflects their performance in anti-evasion activities. These reports are compiled and sent to the Board. Similar monitoring in respect of Service Tax performance is undertaken by the Directorate General of Service Tax. The relative performance of the Commissionerates is analyzed and brought to the notice of the Board. The Board has assigned central excise anti-evasion targets to all zones based on an objective criteria such as evasion prone commodities, past profile of assesses and the revenue targets of the various zones, which range from 2-4% of the revenue targets. The zones report their progress to the Board, which is reviewed and necessary action is taken wherever required. DGCEI has not been assigned any specific target keeping in view their charter and their position as the premier intelligence-cum-investigation agency. However, DGCEI has booked most of the high value cases in the preceding 3-4 years. The reward policy for departmental officers and informers has been extended to service tax to provide an incentive for cases booked in this emergent area.
- (b) **Audit:** Central Excise Commissionerates send regular feedback of their audit performance to the Directorate General of Audit in the form of quarterly audit reports. These contain details of the coverage of audits (No. of audits conducted to those scheduled); total volume of detections

and spot-recoveries. These results are then used to grade the Commissionerates on the basis of an Audit Performance Index and such quarterly/annual gradings are circulated both to the Commissionerates as well as the Board. The Zonal Units of the Director General of Audit also conduct annual Quality Assurance Reviews of every Commissionerate in their jurisdiction to verify whether the prescribed standards and procedures are being complied by them while planning and conducting audit. At the Commissionerate level, the quality of audit conducted is evaluated and monitored by the Monitoring Committee, which is chaired by the Commissioner.

76. **Customs:** DRI conducts meetings on a quarterly basis with all Additional Director Generals where their performance in all areas such as seizures made, commercial fraud detected, investigation completed and SCN issued, duty recovered during investigation and after investigation are reviewed. Further the position of cases pending investigation is also reviewed so as to prevent any undue delay.

77. There is also a system of monthly monitoring of the anti-smuggling performance of all Chief Commissionerates. Under this system, all Chief Commissionerates are required to submit details of cases booked in the month, contraband seized, new cases of commercial fraud detected, cases in which investigations have been completed and Show Cause notice issued, amount recovered during investigation, persons arrested and persons detained under COFEPOSA. The performance of the zones is received *vis-a-vis* their performance last year (during the corresponding period of time) and *vis-a-vis* other Chief Commissionerates. In addition periodical reports are received from the field coronations with regard to the performance under various heads, which are closely scrutinized and necessary instructions are given for improvement qualitatively or otherwise, wherever necessary.

78. A money report on anti-smuggling performance of DRI and all Chief Commissionerates is submitted to the Board. The report so submitted is scrutinized and necessary directions are issued to the Customs Zones, where improvements are needed.

## FIXATION OF REVENUE TARGETS

79. As regards to fixing of target the Ministry in a note furnished to the Committee stated;

“Direct Taxes:

“Direct Tax revenue targets (Budget Estimates) are finalized in the Ministry of Finance during the Budget exercise and published in the Receipts Budget document of the Annual Budget document of Government of India. The procedure leading to the determination of Budget Estimates of Direct Taxes and the allocation of Budget Estimates amongst the field-level units involves the following steps:

- Central Board of Direct Taxes (CBDT) makes an estimate of the direct tax collections for the ensuing financial year on the basis of the historical trends of collections including collections of the current financial year.
- The estimates work out on the basis of historical trends is further enhanced by the amount of Additional Resource Mobilization (A.R.M.) that is expected to be realized in the ensuing financial year on amount of amendments introduced through the Finance Act of that year.
- The final estimates are sent confidentially by CBDT to the Budget Division of Department of Economic Affairs of Ministry of Finance, which examines the estimates of CBDT and after making adjustments in the same on the basis of their own perception of the economic factors expected to prevail in the ensuing financial year and in view of the overall fiscal position of the Government of India, finalizes the Budget Estimates with the approval of the Finance Minister.
- The Budget Estimates for the year is thereafter apportioned by CBDT amongst the 18 cadre-controlling Chief Commissioners of Income Tax (CCsIT) in the country. For working out the target of a particular Cadre-Controlling CCIT, normally the collections made by such CCIT in the last financial year is enhanced by the same percentage by which the total direct tax collections of the Government must increase to achieve the Budget Estimates. In other

words, if the Budget Estimates for 2005-06 were 25% higher than the actual collections for 2004-05, the target of each cadre-controlling CCIT for 2005-06 would be fixed at an amount that is 25% higher than the actual collections of that CCIT for 2004-05.

However, CBDT may also adopt any other method for allocation of targets to ensure fair and equitable distribution of the Budget Estimates.

- Further allocation of target by the cadre-controlling CCIT amongst the other CCsIT of his region, by the CCsIT amongst the Commissioners of Income Tax (CsIT) and further down till the level of the assessing officer has been delegated to the respective authorities, who allocate targets on the basis of the past collections and potential for collection of the given field unit.

#### **Indirect Taxes:**

**Customs:** Revised Estimate (RE) is computed taking into account the trend of customs revenue collection, estimated value of imports, Exchange rate and average customs duty collection rate and other material factors received from various sources. The Budget Estimate (BE) for the next financial year is prepared on the basis of growth of actual revenue collection, projected value of imports, Exchange rate, average customs duty collection rate, the Additional Resource Mobilisation if any, proposed in the budget and other material factors received from various sources.

**Excise:** Revised Estimate (RE) is prepared on the basis of trend of excise duty collection. Estimated growth in manufacturing sector for remaining months of the current year is also taken into account for preparing the RE. The Budget Estimate (BE) for the next financial year is prepared on the basis of growth of actual revenue collection up to the month of November during current financial year, projected manufacturing growth and inflation for the next financial year and the Additional Resource Mobilisation, if any, proposed in the budget for the next financial year.

**Services Tax:** Revised Estimate (RE) is prepared on the basis of trend of Service Tax collection growth. The Budget Estimate (BE) for

the next financial year is prepared on the basis of growth of actual revenue collection up to the month of November during current financial year, expected growth in revenue collection for the next financial year and the Additional Resource Mobilization (new services, etc.), if any, proposed in the budget for the next financial year.

The All India Target as fixed above is allocated among the zones taking into account the revenue collection growth of respective zone. Zonal Chief Commissioner allocates the revenue target to the individual Commissionerate under his jurisdiction.

It is, however, stated that while field officers are urged to make all possible efforts in meeting the targets fixed, these are only through legal means such as recovery of realisable arrears, checking evasion of duty, quicker disposal of pendencies in the area of adjudication, finalisation of provisional assessments & call book, and moving the Court/Tribunal for early hearing of cases with substantial revenue stakes, disposal of stay applications pending with various appellate authorities.

#### DECENTRALISATION OF POWER

80. The Government in their written reply stated about the extent of decentralisation of administrative and financial powers.

##### **“Direct Taxes:**

81. With regard to administrative powers, the transfer/posting of officers in the Income Tax Department up to the level of Joint Commissioners/Additional Commissioners have been delegated to the concerned administrative Chief Commissioner of Income Tax of the respective regions who are competent to make the transfers within the region.

82. Concerned Chief Commissioners have been delegated powers to sanction earned Leave up to a maximum period of 90 days to the officers of Commissioner level. In respect of officers of the grade of Addl. CIT/Jt. CIT, the CCIT are the competent authority to grant leave up to 180 days. In respect of the officers of lower grade, the concerned CCITs are competent to grant leave without any restriction of period. Administrative powers with regard to the preparation and finalization of pension cases, in case of retirement on superannuation of IRS officers have also been delegated to the concerned CCITs.

83. The concerned CCITs have already been delegated powers in respect of officers of Additional/Joint Commissioners level in compliance with the CCS (Conduct) Rules.

84. The delegation of financial powers in the Department is governed by the Delegation of Financial Power Rules of the Central Government. Certain financial powers are vested at the level of the Chief Commissioners/Commissioners of Income Tax in their capacity as 'Heads of Departments'. Some financial powers are also delegated to 'Heads of Offices' who are usually of the rank of Dy. Commissioners/Asstt. Commissioners of Income Tax.

**Indirect Taxes:**

85. The Department has already taken necessary steps to decentralize administrative and financial powers and orders have been issued from time to time in this regard.

86. The representatives of FCCI during the oral evidence stated on decentralization of administrative and financial powers of the field level tax officers:

"We have to have decentralization on administration and financial powers both at the regional and State levels."

87. He further added:

"On the question of administrative and financial powers, we find that today it is very highly centralized. Is it possible to have regional and State-level decentralisation which would bring the administration closer to the people?"

88. The representative of the Ministry, during the oral evidence, on the aspect of delegation of powers stated:

"We need to look at the delegation of powers. We need to see whether greater decentralisation is necessary in certain areas so that officers can be more effective."

**COURT CASES**

89. The representative of the Ministry, during the oral evidence, on the aspect of disposal of legal cases, stated:

"I have been talking to the Law Ministry to see how this can be streamlined, that is, the appointment of counsel in particular. We are also trying and we have written to various courts to try and



see how the disposal of cases can be expedited. This will be at all levels. We have also given similar instruction to our Commissioner (Appeal) to dispose of the cases as fast as possible. So, whatever is the final outcome, that comes into the system, and we can collect that.”

90. The representative of the Ministry added:

“I would like to say that the Chief Commissioners also maintain a panel of counsels. They are constantly consulted. They send the name. We review how a particular counsel has been performing and on that basis, the renewal is given. I think it is not the input by which we can say that the Chief Commissioners’ offices are not consulted in the appointment of the Counsels.”

91. When the Committee raised a point in this regard that the field formations expressed the problems with the appointment of Government Counsels, the representative of the Ministry stated:

“I have one point to make. There is a difference for the CBEC. Perhaps, this kind of a response might have come from the Chief Commissioners of Excise and Customs because, for them, the Counsels are appointed by the law Ministry perhaps.”

#### COMPUTERISATION PROGRAMME

92. The Government in their written reply on the aspect of computerization programme and its effect on enhancing tax collections, stated as follows:

##### “Direct Taxes

##### Status of Comprehensive Computerisation of Income Tax Systems

Action Points	Objective to be achieved	Target date	Implementation status as on 15.1.05
1	2	3	4
<b>1. e-delivery of taxpayer services</b>			
1.1	Dissemination of tax information through web	Enabling taxpayers to obtain up to date information relating to taxation laws, forms, challans etc. through internet	30.06.03 Completed

1	2	3	4
1.2	Dissemination of taxpayer specific information through web		
	Know your PAN	Facility to ascertain Pan on internet	31.12.04
	Blank challans with preprinted PAN	Facility to download preprinted Challans with name address and PAN/TAN	31.10.04
	View of tax paid in banks	Facility to verify tax payment on internet	30.06.04
	View of tax deducted at source	Facility to access ledger account of prepaid taxes on internet	31.03.06
			Completed Completed Completed Pending. Dependent on demat of TDS certificates
1.3	PAN and TAN related services	To ensure issue of PAN Cards within 15 days	
	i/ Online filing of PAN application	Providing facility for online filing of PAN applications on internet	31.03.04
	ii/Web Tracking of status of PAN applications	Providing online access to taxpayers to ascertain status of PAN applications.	31.12.03
	iii/PAN grievance handling with Call centre support	E-filing of PAN grievances, their monitoring, tracking and redressal	30.06.04
	iv/"Tatkal" allotment of PAN	On line filing of PAN applications, payment by credit card, and intimation on e-mail in 5 days	31.10.04
			Completed Completed Completed Completed
1.4	i/Simplification of return of income	To simplify and reduce the form of returns of income to one page	30.06.03
	ii/Preparation of returns of income	Return Preparation Software enabling preparation of return of income through a simple question-answer based software	30.06.03
			Completed Completed
1.5	Electronic filing of returns	Simplifying and reducing the interface between taxpayer and the Department at the stage of filing of return of income.	June 2005
			Pending Schemes notified. Registration of e-intermediaries started
1.6	e-payment of taxes	Facility for payment of taxes through internet	Sept. 04
			Pending. System facilities complete. RBI approval awaited
1.7	Faster processing of returns of income/refunds	Computerised processing of returns of income within four months	31.3.04
			Implemented
1.8	Issue of refunds through electronic clearance scheme	Direct credit of refunds to the bank account of taxpayers opting for this scheme.	-do-
			Pilot scheme launched in 12 cities

	1	2	3	4
1.9	Computer assisted selection of cases for scrutiny	Computerised selection of cases for scrutiny on non-discretionary, transparency, intelligent criteria.	October 2004	Completed in 60 cities on network
1.10	Redesigning of TDS returns	To simplify and integrate 16 TDS return forms into 3 for lowering cost of compliance.	31.07.04	Completed
	Electronic filing of TDS returns	Computerisation of TDS returns of corporate deductors	31.12.03	Completed
1.11	Grievance filing mechanism	Facility for e-filing and tracking of grievances	30.11.04	Pending. Delayed by 2 months
<b>2. Augmentation of computer infrastructure within Department</b>				
2.1	Providing PCs to all users	Supply, installation of high end PCs to all users required to work on network	30.6.04	Completed
2.2	Migration of application software	Migration of application software to 3-tier architecture for consolidation of 36 regional databases in to single national database	31.12.04	Delayed by 1 month
2.3	Linking Income tax offices in 510 cities to single national database	To set up an All India Virtual Private Network linking over 12000 users in 745 buildings in 510 cities to National data centre housing single national database	31.12.04	Delayed by 6 months Tender finalised. Approval of CNE awaited.
2.4	Setting up National Data Centre with Business Continuity/users Disaster Recovery sites	Providing computing, data storage, security facilities and related functionalities for enhanced requirement of 12000 departmental users working on single national database	30.04.05	Delayed by 8 months Evaluation of EOI responses complete. Technology solution finalised. RFP being issued.
<b>3. Setting up of Tax Information Network</b>				
3.1	Computerisation of TDS returns	e-filing of TDS returns and digitisation of paper TDS returns	31.12.03	Completed
3.2	Computerisation of TDS returns	e-filing of TDS returns and digitisation of paper TDS returns	31.12.03	Completed
3.3	On Line Tax Accounting System	Online transmission of tax payment information from banks to Department on T+3 basis	1.4.04	Operational from 1.6.2004
3.4	Introduction of Annual Information Returns	Creation of data bases of high value financial transactions	1.7.05	Rules notified. Implementation in Phase-II of TIN

93. Widening of tax base—The total number of PANs already allotted is in the range of 3.7 crore whereas the number of taxpayers on records is about 3.10 crore and number of returns filed in F.Y. 2003-04 is 2.28 crore. Since returns in 60 cities are mostly being processed on networked computers, it would be possible to match and identify non filers. Once the remaining 450 cities are also brought on the network such matching can be done for the entire database for identification of non-filers on yearly basis.

94. Deepening of tax base-Information coming on Annual Information Returns will be used for computerised selection of cases for scrutiny and also for investigations during scrutiny. As the data base of information available through AIRs and through processing of returns on networked computers grows, sophisticated data matching, data warehousing and data mining tools would be used to identify major areas of tax evasion.

95. Elimination of TDS frauds—Once Phase-II of TIN is completed, it will be possible to match TDS deducted by the deductors and credits claimed by deductees. This will eliminate instances of TDS frauds.

#### **Indirect Taxes**

96. The Department has gone in for automation and re-engineering of several of its business processes on an extensive scale. The department has accorded high priority to the use of Information technology for achieving its objectives.

#### **Present Status of Computerization of Customs Formations**

97. The first attempt at computerization of the Customs operations was made in 1986, when the processing of documents at six major Custom Houses was automated. However given the technology available at that time, automation was a process parallel to the manual assessment of import and export documents.

98. The concept of EDI in Customs operations was visualized by the department as early as 1993. Accordingly a Pilot Project was launched at Delhi Air Cargo with the EDI as its basis. The automation of import operations started in May 1995, at Delhi. Since then, the Customs Process Automation has come a long way. The present system features online assessment, duty payment and clearance procedures as well as EDI connectivity with clearing agents at 32 major Custom locations covering sea port, airports, land custom stations and inland container depot.

99. About 85% of country's international trade is covered by the 32 automated customs locations in terms of document load. In the financial year 2003-04, ICES handled about 4 million declarations of import and export in the automated custom locations at an average of about 13,500 transactions per day.

#### **Present Status of Computerization of Central Excise & Service Tax Formations**

100. Currently software applications developed by NIC are used by the Central Excise field formations. The Software available includes (i) packages for electronic filing of returns by the Central Excise & Service tax assessees, (ii) packages for revenue reporting by the Commissionerates and field offices (iii) Software for monitoring provisional assessment cases and (iv) a data entry package for registration and returns of Central Excise and service tax assessees.

#### **Present Status of Computerization of CBEC and Directorates:**

101. The automation project for establishing a CBEC intranet along with the automation of the Directorates and CBEC workflow is underway as a part of the Consolidation Program.

#### **Future Plans**

- (i) A project for implementation of a Risk Management System with 'self assessment' along with a Post Clearance Audit Programme is currently going on, as a deliverable out of the BPR project mentioned below. The system aims to identify consignment as per their perceived risk and accordingly seeks to give appropriate treatment and facilitation. A low risk importer may have the facility of self assessment and 'no examination' thus allowing the department to concentrate on 'high risk' cases. This measure will offer greater measure of facilitation to the compliant trade and will also contribute to reduction in dwell time of cargo and thus to transaction costs.
- (ii) *Consolidation project:* Presently the Customs, Central Excise & Service Tax applications are running on separate servers catering to individual geographical locations. CBEC has mooted a proposal to set up a centralized computing facility (data centre) for all Customs, Central Excise and Service tax operations. The proposal, which envisages an expenditure

of approx. Rs. 167 crores (capital outlay) and Rs. 30 crore as recurring expenses, has been approved by the Committee for Non-Plan Expenditure and now awaits approval of CCEA.

- (iii) *Data Warehouse*: The project aims to establish a data warehouse to harvest data generated out of the automated systems. The Data Warehouse would extract data initially from ICES and later from Central Excise transactional systems to enable easy, flexible analyses by Customs and Central Excise officers. The department's own automated applications would themselves require data analysis (for the purposes such as risk analysis etc.) Data warehouse would also acquire data through a number of additional applications and systems providing organization-wide capabilities to use data effectively. A leading consulting firm, M/s Price Waterhouse Coopers is working with the Directorate of Systems to gather user requirements and suggest a suitable architecture along with technology options. Their report will be made available this month. The implementation of the project is linked to consolidation.

#### **Impact of Computerization on Revenue Collection**

102. Through the automated systems, it is easier for the department to track high-risk transactions and high-risk taxpayers so that the resources of the department can be directed at declarations/returns that are considered high risk to revenue. In the long run, an automated regime will contribute to higher levels of investment and therefore contribute to higher revenues.

103. Computerization has helped the department to improve the level of compliance in the following way:

- (i) *National Import Database* (NIDB) is a powerful assessment tool for Customs officers and a Decision Support System. For those who are engaged in day-to-day assessment of imported goods at various Custom stations in India, the NIDB provides instant information to compare declared values with contemporaneous import prices as well as current international prices of identical/similar goods. This enables the department to take well-informed decisions on valuation and classification of imported goods and to prevent loss of revenue on account of under valuation or mis-declaration.

- (ii) The NIDB database also helps Customs officers and investigative agencies, to conduct risk analysis and item profiling to target goods or consignments, which are sensitive to under-valuation.
- (iii) NIDB is also a valuable source of information in post audit work to review classification, valuation and other particulars of goods, which have been imported and cleared from customs. NIDB also provides vital information for product research and analysis in tax planning.
- (iv) On the Central Excise side, computerization has made it possible for officers at various levels to monitor the revenue payments and other related particulars of the assessees. Abnormal trends in revenue payments, CENVAT utilization, production, clearances etc. help in selection of units for intensive checking/scrutiny."

104. It was pointed out that so far only 60 cities were processing the information on computer networks. The Committee desired to know the time-frame within which the rest of the 450 cities would be covered under the coverage of direct tax system, the Revenue Secretary during evidence stated:

"The information I am giving is that by 2005, we are hopeful of bringing all the cities under the coverage of direct tax system."

105. In reply to a query on information collation, the Secretary, Department of Revenue during evidence stated:

"The present information system in both the CBDT and CBEC is not complete yet. There are still some stages to go through. There have been some slippages, which we need to correct. We are hoping that within a year or so, we will be able to do this in both the CBDT and CBEC. Thereafter, we will have to go into this question. That is simultaneous exercise. It is because we have to develop systems which will enable the respective servers to talk to each other and to communicate with each other."

106. On the issue of developing synergy in the taxation system, a representative of the Ministry during evidence stated:

"As secretary pointed out, we are trying to develop synergy. We have our own systems in the Customs. We have data pertaining

to Central Excise. If we can develop synergy between direct taxes and indirect taxes on the one hand and direct taxes, indirect taxes and sales tax on the other, then we can develop supply chain management. That means we can share every information right from manufacturing stage to retail stage. With the exchange of data, we will be able to detect all sorts of evasion.

We have completed our process. We are developing synergy. It will take about a year.”

107. As regards digitisation of accounts and how it would make the work of the CBDT more complicated, the representative of the Ministry during evidence stated:

“Sir, the point was as to how the modern techniques adopted by the people have helped people to evade taxes and made the task of the Income-tax Department more difficult. In that regard, we have pointed out that because of this digitisation of the accounts, the assessee now keep their accounts in computers under secret codes. The moment we try to access, they delete them. It is very easy to delete. They are not kept in physical forms. These types of things have helped the assessee in their attempt to evade taxes. This has made our task more difficult.

Certainly, we have evolved capability for tackling these things. We are training our officers in computer techniques and trying to decode their codes and all these things. It is an ongoing exercise.”

108. The Director, NIPF&P on the extent of computerisation of the tax administration has stated during oral evidence:

“I want to suggest about information network. If there is information network—which has been put in place last year—and if you are able to get information on the various transactions that take place in the financial system, that will be very helpful. If you have Value Added Tax at the State level and if you link the information system from the VAT, it will be a self-enforcing principle. In that situation, you cannot claim tax credit unless you show the invoice. There is need to link the information system amongst Excise, Customs and sales taxes. This Will give a unique tax base.



109. As regard to improve the usage of information technology in the tax administration, the representatives of the CII have suggested the following:

“We would like to recommend more use of technology and information system. This has actually been going on over the last some years. The use has increased and actually that has improved the quality of information with the Department as well.”

110. On the status of the computerisation programme, the representatives of the Ministry during oral evidence stated:

“The information system from our point of view is extremely important because it is by linking up of information that we can get all the required data. It can be fed into a common source and from there it should go to the excise, to the income-tax and even ultimately to the State VAT system. Such a strong information system is a pre-requisite to ensure that tax evasion does not take place and for this, we are giving the highest priority. We have in the direct tax area the tax information system, which has already become partly operational from 21.01.2004. The online tax accounting system OLTAS has become functional from 1.6.2004. Of course, there are various other ways in which we are trying to collect information.”

111. The witnesses added:

“We have now published, as the Hon’ble Committee is aware, the rules for the annual information returns which will give us information which starts coming from August this year with regard to all cash deposits in banks of Rs. 10 lakh and above, any payments by a person against credit card aggregating rupees two lakh and above in a year, investment in a mutual fund by a person of rupees two lakh or more, investment of rupees five lakh or more in debentures or bonds issued by a company or institution, investment of rupees one lakhs or more in a public or rights issue of a company, purchase or sale by any person of immovable property valued at Rs. 30 lakh or more, investment by a person for an amount aggregating rupees five lakh or more in a year in bonds issued by the RBI. Likewise, we have a number of categories of payments, which I will not elaborate because the information is already available with the Hon’ble Committee. We have introduced the system of compulsory quoting of PAN. We have provided all officers of Department up to the level of ITO with computers and

we intend to expand the Department in that area. We are also introducing a computer-assisted scrutiny selection method. Again, with regard to service tax, registration through the computer system and e-filing of service tax returns has been enabled since 1.4.2003. We have, therefore, tried to strengthen the information system."

112. The representatives further added:

"The first important area that we have to look at in terms of future is the information system. We have to see that the existing information system both in the Central Board of Excise and Customs and the Central Board of Direct Taxes completes its networking within the shortest possible time. We have now a third source also. With the VAT system also coming into operation, the State Governments are also accumulating data. At a certain stage, these three sources of information have to converge and the moment they converge, we will be able to check one against the other and that would automatically lead to much more information available to the tax assessing authorities on the kind of taxes that are paid. For example, it may be that a particular company seems to pay a large amount of excise duty but at the same time, it is not paying the income tax and corporate tax. If we can feed this information into one system, we can check one against the other. That would automatically lead to compliance in all the areas including the State VAT system, the Central excise system and the income tax system."

## EVASION OF TAX

### **Direct Tax**

1.13 The Ministry of Finance (Department of Revenue) in a note furnished to the Committee stated:

"The Income-tax Act, 1961 contains several provisions empowering the Income Tax Department to undertake search and survey operations, deterring transactions in cash and various deeming provisions for taxing unexplained credits, unexplained investments, unexplained expenditure and unexplained possession of money, bullion or valuables. The Department also carries out scrutiny in selected cases. In suitable cases, prosecution is also launched.

114. The steps taken by the Department in this regard are elaborated as under:

#### SEARCHES AND SEIZURES

Section 132 of the Act empowers certain income-tax authorities to carry out a search. They may seize incriminating books of accounts, documents and unaccounted money, bullion, jewellery and other valuable articles or things found as a result of the search. The power to requisition books of account, etc., taken into custody by any officer or authority under any other law for the time being in force, is also available to certain income-tax authorities u/s 132A of the Act. These two provisions enable income-tax authorities to get hold of evidence bearing on the tax liability of a person which he may be withholding from the Department. The results achieved with regard to searches and seizures in the last five years are as follows:

**Table 1: Year-wise result of search and seizure**

Financial Year	No. of Search warrants	Value of Seizure (in Rs. Cr.)
1999-2000	5670	412.84
2000-01	5321	512.36
2001-02	4358	344.32
2002-03	4902	515.86
2003-04	2492	231.37

#### Surveys u/s 133A of the Act

115. The objective of surveys is to collect useful information for enforcement. By conducting surveys, income-tax authorities independently gather information relating to financial transactions of various persons or classes of persons as may be useful for, or relevant to, any proceeding under the Income Tax Act. Surveys also enable the Department to check the veracity of the statements filed by such persons before the income-tax authorities. Information collected through surveys may lead to discovery of new assesses and stop filers. It also helps in detecting tax violations like under-reporting of income in the returns filed, failure to deduct tax at source by persons responsible for doing so, failure to pay the tax deducted at source by the deductors and failure to furnish returns and statements by persons who were statutorily required to do so.

**Prosecution**

116. Launching of prosecution is an important tool in the hands of the Income Tax Department for curbing tax evasion. A person would be liable for prosecution if he commits any of the offences mentioned in Chapter XXII of the Income Tax Act. These provisions have to be read with the relevant provisions of the Indian Penal Code.

**Selection of cases for scrutiny**

117. Out of the total number of returns filed, only 2-3% are picked up for scrutiny. The Board annually frames the criteria for selection of cases for scrutiny by the Assessing Officers.

**Central Information Branch (CIB)**

118. The Central Information Branch (CIB) of the Department was formed in order to answer the need for sorting, collating, managing, organizing, analyzing and disseminating the large volume of information regarding high value transactions flowing into the Department from various sources. Over a period of time it became an effective tool for widening and deepening the tax base of the country. However, from the next financial year, when the Department starts receiving the Annual Information Returns (AIR) regarding high value transactions u/s 285Ba of the Act, the role of CIB will get modified.

**Tax Information Network (TIN)**

119. A Tax Information Network (TIN) has been formed as a repository of important tax related information, which can be accessed by the Department. The basic components of TIN are:

- (a) Information relating to 'high value' transactions coming from the Annual Information Returns (AIR)
- (b) Information relating to Tax Deduction at Source (TDS) coming from TDS returns filed electronically and manually;
- (c) Information relating to payment of taxes coming through banks.

120. The information available from TIN will also enable automated identification of non-filers and stop filers and automated selection of cases for scrutiny. The National Securities Depository Agency (NSDL) has been appointed as the agency to host TIN.

**Annual Information Return (AIR)**

121. Section 285BA has been substituted in Finance Act, 2004 and provides for filling of Annual Information Return (AIR) by prescribed persons regarding high value transactions entered into on or after 1st April, 2004. This measure is expected to give big boost to the efforts to both widen as well as deepen the tax base.

**Publicity and awareness Campaign**

122. Effective publicity through TV, Newspapers, Magazines, and Hoardings etc. is being done on a continuous basis to make the people aware of their legal obligations to file their returns of income.

123. The Department has recently launched an advertisement campaign throughout the country for payment of taxes in print media and radio covering all leading newspapers in English, Hindi and other vernacular languages.

124. The recently telecasted 13 part television serial on DD-1 titled "Kar se Shikhar" for taxpayer information has been widely acclaimed as a step in the right direction. Further, the DIT (RSP&PR), New Delhi has already released 24 prints ads in 120 newspapers all over India, 6 Radio jingles on AIR FM and eight 30 seconds TV commercials on DD-1 during the year. Apart from this, prints ads were issued to publicize new TDS forms, new procedure for IT refund, e-return facility, Aaykar Sampark Kendra (call centre), new single copy tax challan procedure etc."

125. Despite the rationalization and reform of the tax structure undertaken over the past few years, the evasion of the indirect taxes has been taking place. Use of sophisticated tools and techniques by tax evaders as well as liberalisation carried out over the years has made the task of detection and establishment of evasion more complicated but challenging.

**Excise Duty Evasion**

126. Analysis of the intelligence and the reports received by the DGCEI from its Zonal/Regional Units as well as the Central Excise Commissionerates indicates that in so far as the commodity profile is concerned, Pan Masala/Gutkha, Polyester Yarn/Fabrics, Cigarette, Iron & Steel, Cinematographic Films, capital goods were some of the major evasion prone commodities. Further, export incentive schemes like EOU

Schemes and location based exemption schemes have been found to have been misused. CENVAT credit frauds were also observed without the physical receipt of goods and only duty paying documents travelled to the consignee for availing irregular CENVAT credit.

127. The figures for excise duty evasion and revenue realized during investigations for the last three financial years is given as below:—

(Rs. in crores)

Year	No. of cases	Duty evasion	Revenue realized during investigations
2001-02	6143	2872.74	214.99
2002-03	5139	2495.79	182.44
2003-04	6035	2780.78	241.92

#### Customs Duty Evasion

128. Customs duty evasion can be broadly defined as an act of commission or omission in contravention of statutory or regulatory provisions governing import, export and other allied Acts with intent (a) to evade or attempt to evade payment of duties; or (b) to circumvent any prohibitions or restrictions; or (c) to receive or attempt to receive any export incentives without proper entitlement.

129. The types of evasion that were commonly noticed during the year 2003-04 are misuse of DEEC scheme, misuse of EPCG scheme, misuse of 100% EOU scheme, misuse of DEPB scheme, misuse of drawback scheme, under-invoicing, mis-declaration, misuse of free trade agreement between India and Sri Lanka, etc.

130. The number of seizures made since 2001-02, their value and final realization of duty, penalty and sale proceeds is as under:—

Year	Number of seizures	Value (Rs. in Crore)	Realisation of Duty/Fine/ Penalty/Sales Proceeds (Rs. in Crore)
2001-2002	35658	1021.84	146.83
2002-2003	40131	552.80	154.38
2003-2004	47752	747.16	174.58

**Searches and Seizures:**

131. Asked to furnish details about the number of searches, value of the seizures, tax realised and non-realised and reasons for such non-realisation, in detail, for the last five years, the Ministry in a note furnished to the Committee stated as under:—

“The details of search and seizure action taken by the Department in the last five years is furnished in the following table:

Financial Year	No. of warrants executed	Value of assets seized (Rs. in lakhs)	Total tax realized (Rs. in lakhs)	Total tax non-realized (Rs. in lakhs)
(1)	(2)	(3)	(4)	(5)
1999-2000	5670	41284.48	8148.95	58953.13
2000-01	5321	51235.84	26194.41	128089.96
2001-02	4358	34432.64	52581.92	355818.51
2002-03	4902	51586.54	42622.44	131525.94
2003-04	2492	23137.42	36236.35	264720.75

132. Reasons for non-realization of collection of tax demand in search and seizure cases are as under:—

1. Demand outstanding against Notified persons under the Special Court (Trial of offences relating to Securities) Act, 1992. (scam cases of Harshad Mehta/Ketan Parikh, etc.)
2. No assets/inadequate assets for recovery.
3. Demand stayed by Courts/ITAT
4. Cases before Settlement Commission
5. Cases admitted before BIFR
6. Companies in Liquidation.
7. Cases where the Department has lost in appeal but the demand is outstanding for other years or is continuing to be raised to keep the issue alive as the Department is in further appeal.
8. Demand covered by instalments.

9. Protective Demand.
10. Assessees not traceable
11. Demand stayed by I.T. Authorities.”

### **Evasive Techniques**

133. It has been stated that use of sophisticated tools and techniques used by tax evaders as well as liberalisation carried out over the years has made the task of detection and establishment of evasion more complicated and challenging.

134. Asked to explain the sophisticated tools and techniques used by tax evaders and the strategies devised by the Government to tackle these, the Ministry stated in their written reply:—

### **Direct Taxes**

135. With the globalization and liberalization of investment decisions, a number of foreign companies have started functioning in India. The transaction between the Indian entity and the foreign company is so arranged as to ensure less-than-normal profits of the Indian entities. This tendency has become more pronounced in respect of e-Commerce transactions where at times establishing the identity of the person and subsequent documentation becomes difficult due to the typical nature of the trade. Globalization has also given opportunities to MNCs to misuse certain tax concessions like routing their investment in India through conduit companies located in jurisdictions where there is lower tax, with whom India may have a Double Taxation Avoidance Agreement (DTAA).

136. In order to address these problems and to reduce their harmful impact, suitable amendments and administrative measures have been taken by the Government, including the following:

- (a) Transfer Pricing Regulation: By Finance Act, 2001, special provisions relating to income computation of income from international transactions having regard to arm's length price have been introduced. Cases involving international transactions of Rs. 5 crore or more are compulsorily scrutinized.
- (b) Model Draft DTAAL: India has entered into various DTAAAs with several countries. However, some of them did not have



provisions to effectively deal with situations of conduit companies, problems of collection of tax dues from non-residents, exchange of information, etc. A new model draft for 2004 has been prepared and fresh DTAA's are being entered into with various countries in order to address these problems effectively.

- (c) The Board has also taken certain administrative measures in this regard. These include creation of a separate Directorate of International taxation headed by a Director General of Income Tax who is assisted by five Directors of Income Tax stationed at the four metros and Bangalore. A Directorate of Transfer Pricing has also been created at these places in order to determine the 'Arms length price' for various international transactions.

137. Apart from the above, it has come to the notice of the Department that digitization of accounts and their storage and maintenance in electronic format are making the task of tax compliance more complicated. It has become quite routine to maintain duplicate sets of books on a web site under a secret code, which is not accessible to the Department even during the search and seizure operations. Such accounts or part thereof are deleted when their purpose is served. Further, computerization has made it quite easy to rewrite books of accounts and their storage has also become quite easy in innocuous devices such as pen drive and I-pode.

138. In order to tackle this problem, the Department is giving training to its officers, especially those working in the Investigation Wing, to unearth tax evasion through such methods.

### **Indirect Taxes**

(I) **Central Excise:** As a part of liberalization process, the department has moved to a system of self-assessment of duty liability by the assessee. Besides, the format for the periodical return (monthly or quarterly) has been simplified. The return is no longer accompanied by invoices on the basis of which CENVAT credit has been availed or invoices for clearance of goods from the factory. Statutory records that were earlier required to be maintained by every assessee have been dispensed with. The assessee's private records are now acceptable for Central Excise purposes. A monthly duty payment scheme has been introduced in lieu of payment of duty on each consignment. In addition to this, many assessee's have switched over to maintenance of

computerized records. With greater emphasis being laid on simplifying the procedures, the task of tax collection has become challenging. The assesseees are taking shelter of ingenious methods to evade tax.

139. Some of the major *Modus Operandi* detected with regard to evasion of central excise duty are:

- (i) Clandestine removal.
- (ii) Misuse of Cenvat credit scheme.
- (iii) Misuse of exemption notifications.
- (iv) Under valuation and
- (v) Misclassification.

140. Some of the specific tools and techniques used by the evaders, and the reasons why the changes in procedures and rules have made the task of the law enforcers more challenging with respect to the above *modus operandi* are discussed in the succeeding paragraphs.

(i) **Clandestine Removal:** With the relaxations in controls and procedures, the evaders find it easier to resort to clandestine removal which has been reported in all the sectors, *viz.* small-scale sector, medium-scale sector and large-scale sector, though the method and sophistication for undertaking evasion varies from sector to sector. In the case of small-scale sector, due to relatively lower quantum of evasion, involvement of lesser number of people in planning the evasion, proximity to the market etc. incriminating documents are not easily available. In the case of medium and large scale sector, meticulous planning is done to cover up clandestine removal by resorting to various techniques like parallel invoicing, wrong description on the invoices, recovery of sales proceeds under the garb of other charges/commission, creation of dummy/fictitious sellers/buyers etc. The detection and establishment of clandestine removal, therefore, requires meticulous investigation to unravel the complex web of financial transactions and is not simply a question of detaining a consignment of goods in transit checks etc.

(ii) **Misuse of CENVAT Credit Scheme:** As per the presently applicable procedures and rules, the assessee is free to take cenvat credit in respect of inputs as well as capital goods without his having to make any application to the jurisdictional authorities or even having to intimate the authorities regarding the receipt of the inputs/capital goods in his factory. The misuse of the cenvat credit scheme takes

place when sometimes the inputs are not received at all in the factory and only the excise documents are received by the assessee against which he takes the credit. As the documents against which credit has been taken are available and are in fact genuine documents (although the goods in question have been used by some other manufacturer) it is very difficult for the investigators to establish that the inputs had in fact not been received and not utilized by the assessee who has availed the credit. Similarly, in respect of capital goods it has been noticed that credit has been taken in respect of goods which were not used in activities related to the manufacture of the excisable goods. Once the capital goods have been utilized in the setting up of a plant, it is in fact very difficult to establish their nature or whether they have been correctly utilized or not.

(iii) **Misuse of Exemption Notifications:** These include cases of misuse of small-scale exemption, exemptions related to 100% Export Oriented Units and area based exemptions. Goods imported or procured domestically by 100% EOUs without payment of duty are diverted clandestinely into the open market. Further, in order to establish their export obligation the assessees manipulate the export documents or present forged documents. This has been possible because the 100% EOUs are not subject to any special controls and in fact enjoy the self assessment procedure which is applicable to units located in the Domestic Tariff Area (DTA).

(iv) As far as cases of under valuation and misclassification are concerned, with the introduction of transaction value & MRP based assessment in the case of consumer goods and the rationalization of the tariff, such cases of evasion have in fact come down.

(II) **Customs:** Over the period, the trend of tax evasion has shifted towards commercial fraud from outright smuggling. With only a small number of items remaining in negative/restricted category of imports/exports, the increasing numbers of tax evaders are indulging in commercial frauds, mainly resorting to the following tools and technique to evade payment of taxes/duties:

- (i) Extensive use of E-mail for correspondence purposes instead of traditional method of mail, which are periodically deleted so as to avoid any detection by investigating agencies at a later stage.
- (ii) Increasing use of computer/computer scanners to generate duplicate/forged invoices or Certificates of Origins.

- (iii) Opening dummy companies in third countries for the purpose of layering the undervaluation of imported goods.
- (iv) Misuse of free trade agreement by getting Certificates of Origin issued on the basis of wrong information of value addition or manufacturing process furnished to the Certificate issuing agencies.
- (v) Routing the goods through third countries to avoid payment of anti-dumping duty.
- (vi) Mis-declaration of description/quantity/value either to evade import duty or to unduly avail higher export benefits.

(I) **Central Excise:** To meet this situation, the Department relies increasingly on information contained in financial and other records maintained by the assessee in the normal course of business for validating the information contained in his excise returns. In respect of assesees paying annual duty of more than Rs. 1 Crore, an Annual Financial Information Statement has also been prescribed. A set of returns has also been introduced for obtaining information on the input-output ratio of each assessee and tracking it on a monthly basis. Initiative has also been taken for the training of officers in EA 2000 methodology as well as reading and interpretation of the financial books of accounts.

141. In order to more effectively combat evasion an Action Plan has also been drawn up by the DGCEI, the key features of which are as follows, namely:

- i. Concentrate on quality cases having large revenue stakes and/or those having recurring effect.
- ii. Replicating cases having distinctive features and revenue potential.
- iii. Strengthening the informer network.
- iv. Developing strategic intelligence for specific units, specific sectors and specific industries.
- v. Commodity specific studies with an anti-evasion perspective.
- vi. Maximise voluntary payments during investigation.
- vii. Greater interaction with Commissionerates, particularly for CENVAT credit cases.
- viii. Dissemination of intelligence by issue of M.O. circulars.

142. A proposal for strengthening the anti-evasion machinery by creating more zonal/regional units and providing additional staff to the existing units is also under examination by the Board.

(II) **Customs:** Strategy devised for curbing customs duty evasion is as under:

- (i) Increasing use of Bilateral Customs Mutual Administrative Assistance Agreement and signing of new Agreements with important trading partners such as USA and European Community (consisting of 25 countries) so as to assist each other in detection, prevention and investigation of customs offences.
- (ii) Posting of customs officers abroad for the purpose of effective coordination with other customs administrations so that evidences could be collected for the purpose of successful completion of investigation.
- (iii) Signing WCO Convention on Mutual Administrative Assistance (CMAA), which will help us in procuring evidence from other customs Administrations, who have also signed CMAA.
- (iv) Increasing computerisation of Custom Clearance procedures and use of Electronic Data Interface (EDI) system for data analysis on a real time basis to identify suspects to be investigated.
- (v) Conducting systematic studies of various export promotion schemes with a view to identify loopholes and to make rationalization to plug loopholes.
- (vi) Increasing use of Container Scanner so as to detect any concealment of goods and to install more such scanner at several other important ports.
- (vii) Increasing use of X-ray machines at the airport so as to detect any concealment in the baggage.

#### ANTI-EVASION EFFORTS

143. Asked about the efforts taken by the Government on tax-evasion, with respect to the Central Excise Duty, Customs Duty and

Service Tax and the results thereof, the Ministry in a note furnished to the Committee stated:

(I) **Central Excise and Service Tax:** The Directorate General of Central Excise Intelligence (DGCEI) is the nodal intelligence agency for detection and investigation of central excise and service tax evasion. It also coordinates the anti-evasion activities in the Commissionerates and interacts with other enforcement agencies. DGCEI is often concerned with cases that have all-India ramification. If the Central Board of Excise and Customs feels that a particular case requires specialized investigation or has significant revenue involvement, then the same is assigned to DGCEI for investigation. DGCEI also issues *modus operandi* circulars to alert the field formations so that they are more vigilant. The Commissionerates are also concerned with anti-evasion activities in their respective territorial jurisdiction. There is an anti-evasion set up in each division and the Commissionerate also has a centralized anti-evasion set up for the entire jurisdiction of the Commissionerate.

144. During the last five years there have been significant changes in the rules and procedures related to Central Excise. There has been considerable liberalization. At the same time the anti-evasion machinery has been strengthened with the creation of two new zonal units of the DGCEI at Ahmedabad and Bangalore, and with upgradation of several of its Regional Units. Similarly, the focus on anti-evasion activities has increased due to creation of more compact Central Excise Commissionerates.

145. In December, 1999, the Government introduced a more rigorous and scientific system of audit viz Excise Audit (EA) 2000 to combat evasion/avoidance of Central Excise duty and to promote voluntary tax compliance among the assesseees. Two audit manuals—one for Central Excise and other for the Service tax—spelling out the details of the system have since been prepared and circulated within the Department. All Central Excise assesseees paying annual revenue exceeding Rs. 1 Crore are mandatorily audited every year under EA 2000 and the others are selected for audit on the basis of their risk profile coupled with a prescribed frequency.

146. The underlying philosophy of service tax administration has been to encourage voluntary compliance. However, following additional steps have also been taken to check evasion of Service Tax:

- a. Six exclusive Service Tax Commissionerates have been created to administer the provisions of law in relation to Service Tax.

- b. During last year and in the current year, Street-to-Street survey was undertaken by the department to identify and register the unregistered Service Providers. During course of the exercise undertaken from 15th November to 15th December 2004, 46,405 service providers have been identified/registered.
- c. To motivate the field officers and informers for detecting the cases of Service Tax evasion, reward policy has been extended to Service Tax also.

147. The Ministry has furnished the performance of the Directorate General of Central Excise Intelligence (DGCEI)/Commissionerates in respect of detection of evasion of Central Excise Duty and Service Tax as under.

**A. Performance of DGCEI**

Sl.No.	Year	No. of cases detected	Amount involved (Rs. Crore)	Voluntary deposit made during investigations before issue of SCN
1.	2000-01	545	581.57*	70.09
2.	2001-02	546	651.70*	74.86
3.	2002-03	435	702.23*	81.47
4.	2003-04	420	663.94	85.11
5.	2004-05 (upto Dec. 2004)	346	549.19	96.78

\*Does not include amount pertaining to certain technical issues.

**B. Performance of Commissionerates (Central Excise)**

Sl.No.	Year	No. of cases detected	Amount involved (Rs. Crore)	Voluntary deposit made during investigations before issue of SCN
1.	2000-01	5071	2022.3	NA
2.	2001-02	5597	2221.04	140.13
3.	2002-03	4704	1793.56	100.97
4.	2003-04	5615	2116.84	156.81
5.	2004-05 (upto Dec. 2004)	2403	1013.49	53.90

**C. Performance of DGCEI (Service Tax)**

Sl.No.	Year	No. of cases detected	Amount involved (Rs. Crore)	Voluntary deposit made during investigations before issue of SCN
1.	2003-04 (from March, 2004)	50	70.63	—
2.	2004-05 (upto Dec. 2004)	239	79.12	10.48

**D. Audit results of all the Commissionerates of Central Excise (both in respect of Central Excise and Service Tax) taken together:—**

Year	No. of cases		Total short-levy detected (Rs. Crore)	Total spot recovery (Rs. Crore)
	No. of units audited	No. of revenue paras raised		
2000-01	1441	1322	647	47
2001-02	4183	3242	1277	76
2002-03	12242	20196	925	58
2003-04	17875	30185	1355	105

148. Since the introduction of EA 2000, the average detection and recovery per audit has gone up.

(II) Customs: The various efforts in the detection of customs duty evasion of prevention of duty evasion are as under:—

- (i) Setting up of a National Import Database (NIDB) which provides data regarding the price at which various items are being imported at different customs stations in the country. This serves as a valuable database for reference in preventing under-valuation.
- (ii) Special watch is also being kept on misuse of various export promotion schemes such as DEEC, EPCG, 100% EOU, DEPB and Drawback schemes.
- (iii) A Self-Assessment and Risk Management System (RMS) in clearance of imports under the EDI system—a trade



facilitation measure, is under process of implementation. It is also a scientific tool for selection and analysis of risk parameters in the clearance of import goods. Such risk parameters may include the profile of the importer, sensitivity of items from the point of view of assessment, examination, testing, prohibitions/restrictions as per EXIM Policy, etc., which are built-in into the system software. This is expected to improve efficiency and prevent tax evasion by means of under valuation or mis-declaration etc.

- (iv) The intelligence gathering machinery has been strengthened to generate effective intelligence.
- (v) The availability of various equipment, which are essential for an effective anti-evasion set up such as transport, communication equipment have been augmented.
- (vi) Computers with appropriate software and data-links have been put in place to facilitate data analysis to detect abnormalities and suspect cases warranting investigation.
- (vii) Database (dossiers) of past offenders has been updated to identify such (new) companies which may have been opened by past offenders.

149. These steps have resulted in increased seizure and commercial fraud cases. The details of such cases booked in last five years are as under:

**(i) Seizure of Contrabands**

(Figures in Rs. Crore)

Year	All India (other than DRI)	DRI	Total
2000-01	747.40	348.13	1195.51
2001-02	474.28	128.33	602.61
2002-03	317.10	151.43	468.53
2003-04	350.68	260.88	611.56
2004-05 (upto Dec.)	329.28	251.72	581.00

**(ii) Custom Duty Evasion Cases**

(Figures in Rs. Crore)

Year	All India (other than DRI)	DRI	Total
2000-01	456.46	336.90	793.36
2001-02	358.56	696.71	1055.37
2002-03	174.66	634.48	809.14
2003-04	510.13	582.92	1093.05
2004-05 (upto Dec.)	131.31	692.34	823.65

**ACCOUNTABILITY OF TAX OFFICIALS**

150. The Government in a written reply submitted to the Committee regarding the steps/measures that have been taken by the Government to fix accountability on the part of tax officials during the last 5 years who have been found colluding with the tax evaders and the action taken against such officials has stated as below:

**Direct Taxes**

“Action as per CCS (CCA) Rules, 1965 is initiated against the officials against whom there are allegations of collusion with the tax evaders. In case the allegations are found established, major or minor penalty, as the case may be, is imposed after following the procedure under the Rules. This is done after seeking the advice of CVC, UPSC and DOP&T and also the Ministry of Law, wherever considered necessary. Such officials are also prosecuted for criminal offences wherever necessary.

151. Vigilance inspections and regular departmental inspections are carried out to unearth instances of such collusion. The officers of suspect integrity are included in the ‘Agreed List’ and a watch is kept over their conduct.

152. It is not possible to furnish the information pertaining to the last five years since the restructuring of the vigilance set-up took place

in 2002. However, information pertaining to the last three years is as under:

Period	Total No. of complaints	Take up for verification/ investigation	Action taken
1.1.2002 to 31.12.2004	4105	482	61

153. As above, in the last 3 years, the Vigilance Wing has received 4105 complaints out of which 482 were taken up for investigation. In this period, disciplinary proceedings were initiated in 130 cases and 61 cases have been finalized. In the cases so finalized, minor penalties and major penalties have been imposed and administrative action has been taken.

#### Indirect Taxes

154. The Government have taken stern steps/measures to fix accountability on the part of tax officials who have been found colluding with the tax evaders. Stern action including sanction of prosecution, imposing of penalties through the mechanism of departmental inquiries under the CCS (CCA) Rules, 1965 have been taken and wherever required, the officers have been placed under suspension. The CBI has also arrested a number of officers. The details of action taken against tax officials in respect of their misconduct including collusion are given below:

Year	No. of officers charge sheeted under CCS (CCA) Rules	No. of Prosecution sanctioned	No. of officers suspended	No. of officers on whom penalties imposed	Searches made by CBI at the premises of offices	Arrests
2001-02	297	62	145	177	48	16
2002-03	372	42	134	252	53	12
2003-04	453	47	174	241	79	19
2004-05* (upto Dec.)	359	24	87	143	47	12

\*Figures for the current financial year are provisional.

## Vigilance and Redressal Grievances Mechanism

### Direct Taxes

155. Asked to spell out the steps for better Vigilance Mechanism and Redressal of Public Grievances, the Ministry in a note furnished to the Committee stated:

The internal vigilance mechanism in the CBDT has been strengthened by creation of four regional Directorates in the four metros. A new post of Director General of Income Tax (Vigilance) has also been created, designated as CVO. In order to streamline the vigilance mechanism of the Department, the vigilance related work has been assigned as under:

- (i) All vigilance matters relating to Gr. 'C' and 'D' officials are looked after by the CCIT (Cadre Controlling Authority). They also have Vigilance Cell for which additional posts have been sanctioned.
- (ii) All vigilance related matters relating to Group B officers of the Department are looked after by the DIT (Vig.)/Dy. CVOs.
- (iii) All vigilance related matters relating to Group A officers are looked after by the office of DGIT (Vig.)/CVO. The office of DGIT (Vig.) also has responsibility for all vigilance matters of the Department irrespective of levels.

156. The following steps are being taken by the department in order to fix accountability on tax officials:

- Identification of officers of doubtful integrity.
- Vigilance inspections in respect of officers of doubtful integrity.
- A comprehensive and systematic machinery for dealing with complaints having vigilance angle and prompt redressal of public grievance on this account.
- Processing of complaints for initiation of major/minor disciplinary proceeding where the allegations are found *prima facie* established.
- Regular Departmental inspections for ensuring that the instructions of the CVC and DOP&T relating to tender process, expenditure norms etc. are being followed.

- Effective and close liaison with CBI and other anti corruption agencies for identifying officer/officials indulging in corrupt practices, collusion with tax evaders and also of officer acquiring assets disproportionate to their known source of income.
- An exercise to educate the taxpayers has been carried out by making them aware of the procedural changes brought about by the Department in matters of processing of returns, issue of refund cheques and selection of cases for scrutiny assessments. The awareness programme is part of the preventive vigilance work of the department.
- The vigilance set up is being computerized for effective monitoring and prompt action relating to corruption related complaints.

#### **Redressal of Public Grievances**

157. As regards Public Grievance Redressal Machinery in Income-tax Department, the Ministry has stated that it has been set up with the fundamental objective of prompt redressal of grievances, safeguarding the rights and dignity of the taxpayers and enforcing accountability of the officials.

158. The Central Grievance Cell under the Chairman, CBDT is looked after by a Director and it controls and supervises all the grievance cells in the country, namely, Regional Grievance Cells under the Chief Commissioners of Income-tax/Directors General of Income-tax, and Grievance Cells with outstation Commissioners and Directors of Income-tax.

159. Each grievance application is acknowledged and a running number is given. To make the system effective and accountable, the Department has evolved a monitoring mechanism horizontally at the field level and vertically at the headquarter level.

160. On receipt of the grievance application, the Grievance Cell gets in touch with the officer concerned and ensures quick redressal of the grievance. If the claim made in the grievance application cannot be accepted, the petitioner is informed accordingly.

161. Asked about the adequacy of the existing mechanism, the Ministry in a note stated:

“The existing mechanism is quite effective as it covers all types of grievances down the line all over the country.”

### **Indirect Taxes**

162. As regards the Vigilance Mechanism in the indirect tax area the following steps have been taken in the recent past to strengthen the vigilance mechanism:

- In order to strengthen the vigilance set up, the staff strength of the Vigilance Directorate has been increased from 65 to 157 in the year 2002 under the Cadre Restructuring Scheme. Further, an independent zonal unit at Delhi headed by an Addl. Director General has been set up in December 2002 to investigate the important vigilance cases.
- Instructions have been issued to the field formations for identifying sensitive posts so as to avoid posting of officers of doubtful integrity to such posts. Commissionerates have identified such sensitive posts and taken necessary action in this regard.
- Directorate of Vigilance has been effectively coordinating timely preparation of Agreed List (of suspected officers) and list of Officers of Doubtful Integrity (those chargesheeted/prosecuted) and then monitoring of posting of such officers to non-sensitive officers.
- The Department has taken steps to reduce the contact between the assessee and the officers, which apart from expediting work is expected to act as a measure to prevent corruption. The Indian Customs EDI System (ICES) is operational which allows electronic filing of import and export declarations from service centre and through customs e-commerce gateway and processing of declarations and taking of decision online by officers on first-in-first-out basis. In this manner, the interface between importers/exporters/CHAs and Customs Officials has been reduced. Similarly on Central Excise and Service Tax side also, e-filing of returns has been introduced in order to reduce the interface between the assessee and the departmental officers.

- The Ministry has stated that the following steps have been taken for redressal of public grievances so far as indirect taxes are concerned:
- The Citizen's charter has been prepared giving time norms for providing various services to the importers, exporters and manufacturers. The members of the trade can easily know their rights, our commitments, expectations and standards.
- For the redressal of Public Grievances to bring in the accountability and transparency in administration and speedy access of information for members of the public in respect of services and activities of Govt. as well as redressal of Grievances, the Information and Facilitation Counters (IFC) have been set up in each Commissionerate under Customs & Central Excise. The trade notices have been issued to this effect giving details of Information and Facilitation Counters, the names and designations of officers, their addresses and phone numbers for information of the trade.
- The signboards have been placed in each office on the main gate giving address and telephone numbers of the Public Grievance Officer as well as office address and telephone/fax number of concerned Chief Commissioner, Commissioner, Director General of Vigilance and Central Vigilance Commission. The citizens can send their grievances to the officers mentioned in the signboards.
- Locked complaint boxes have been placed in the field offices where trade representative can drop their complaints, which are acted upon by the Commissioners.
- For the schemes/services rendered by the department, Public Notices/Trade Notices are issued by the Commissioners of Customs/Central Excise giving the details of procedure and manner in which schemes can be availed and the authority to be contacted for the redressal of grievance.
- In order to reduce the officer-trade interface, the Customs assessment and clearances have been computerised. The Central Excise and Service Tax returns can be filed on website through Internet without the assessee visiting the Central Excise Offices.

- CBEC has its own Website on which the Notifications, Circulars etc. are available and updated on regular basis. Most of the Chief Commissioners also have websites giving details about the services rendered by the department.
- In the Customs Houses, the information about the Status of the bills of entry or shipping bills may be ascertained through Telephone by Interactive Voice System. The status can also be ascertained on the computerised kiosks, installed in the Customs Houses.
- Watch Dog Committee meetings are held in major Custom Houses on a fixed day of each week with the trade representatives and their problems/grievances are heard and sorted out by the respective Commissioners of Customs.
- Monthly Permanent Trade Facilitation Committee meetings are held by the Chief Commissioners of Customs and Central Excise with the representatives of the Trade Associations and Commissioners of Customs/Central Excise of the zone. In these high-powered meetings, the Grievances of the trade are heard by the Chief Commissioner(s) and the grievances are sorted out at the spot or in complicated matters, Commissioners are directed to solve the problems.
- Monthly meetings of Public Grievance Committee and Regional Advisory Committee are held in each Commissionerate alongwith Public Grievance Officers and the grievances of exporters/importers/manufacturers/service providers are discussed and solved.
- In order to bring transparency and awareness among the trade members, after changes in the budget or major policy decisions, the senior officers and trade organise open houses where the changes are explained and replies to the queries are given. The grievances of the trade are also addressed at the spot. Senior officers also attend the Open Houses organised by the Trade Associations and the grievances of the trade are heard and addressed.

#### VOLUNTARY DISCLOSURE OF INCOME SCHEME (VDIS)

163. Asked about the number of persons who had availed the Voluntary Disclosure Income Scheme (VDIS), 1997 and how many of them, who had availed the scheme, have been filing their annual tax



returns since then, the Ministry in their note furnished to Committee stated:

“(i) The total number of persons who had availed of the Voluntary Disclosure of Income Scheme (VDIS), 1997 is 4,75,477.

(ii) VDIS-97 Scheme envisages secrecy of information in respect of the declarants under the Scheme. The Department has not been making any distinction, in terms of strategy for widening and deepening the tax base, between the declarants of VDIS-97 and other assesses. Taking up cases of VDIS-97 declarants, as a class, for the follow-up action of this kind, may not be in accordance with the spirit of VDIS-97.”

164. The Committee enquired as to whether the people who had taken advantage of VDIS, had been subsequently paying the taxes and were filing return properly, the representatives of the Ministry during evidence stated:

“Immediately after the VDIS, as per the Government instructions, all those VDIS declarations were sealed. We had given an undertaking that we shall not disclose their names etc. That kind of confidentiality clause was there in that Scheme. So, thereafter, we have not treated them as a separate class and gone after them to verify this kind of think because some how in the Department it was felt that that would not be in accordance with the spirit of the VDI Scheme. But if the hon. Committee desires or feels that it should be looked into, then perhaps further action can be taken on that.”

165. The Committee pointed out that C&AG had made some observations that by taking advantage of the confidentiality clause of the scheme, the beneficiary did not even file their tax return consequently.

#### SPECIAL AUDIT

166. Apart from the regular audits that are conducted periodically by the field formations, the Central Excise Act, 1944 provides for conducting special audit under Section 14A and Section 14AA, on specific cases of under valuation and misuse of CENVAT provisions, respectively. These provisions thus act as a tool in handling cases of evasion of Central Excise Duty.

167. During the course of the oral evidence, the Committee raised a query whether the provision for special audit under the Central

Excise Act, which was subject matter of a dispute regarding the liability of payment to cost Accountants, are still existing or discontinued.

The Ministry stated:

“Section 14A providing for special audit in certain cases involving valuation issues and under 14AA for similar audit in cases of irregularities in Cenvat credit availment are still a part of the Central Excise Act, 1944. The Chief Commissioners and Commissioners have the discretion to engage the services of a Cost Accountant for verification in select units. Under the present law, the Cost Accountant’s fee is to be paid by the Government. Further the President of the Institute of Cost and Works Accountants is being consulted to prepare a panel of Cost Accountants alongwith the expected levels of fee so that the said provisions may be used more effectively.”

168. The Committee, after due consideration of the opinions and suggestions of the experts and trade associations, and the replies of the Government, have arrived at their observations and recommendations contained in the succeeding paragraphs of this Report.

## STATEMENT OF CONCLUSIONS/RECOMMENDATIONS

1. The Committee take note of the fact that the Tax GDP Ratio in our country is very low and cannot be compared favourably even with some of the developing countries. This situation, the Committee feel, needs immediate and serious attention. There is need to increase this ratio by widening the tax net. It is disheartening to note that in our country of more than one billion population only a few thousands are showing their income as of Rupees ten lakhs and above. This is totally unrealistic, more so where there is an open, blatant and vulgar display of luxury. The total number of persons who are filing their income tax returns is estimated to be merely three and half crore. There is therefore an urgent need to adopt innovative methods in order to mobilise more tax revenues.

2. The FRBM Act has been enacted in the right spirit and in the right direction. The Committee are given to understand that in order to achieve the targets of both fiscal and revenue deficit under the FRBM Act, the gross revenue collection has to grow by 22% in financial year 2005-06 and 2006-07. Though the Committee are quite satisfied with the intent of the Act, yet keeping in view the past track record of collection of revenue, they are apprehensive that it may not be possible to achieve the targets in the near future unless concerted efforts are made to widen the tax base and effective steps are taken to prevent the evasion of tax. While recognising the Government's efforts in enhancing the Tax-GDP ratio, the Committee observe that steps taken need to be vigorously strengthened, lacunae removed and more result oriented efforts need to be initiated at the earliest, to increase the tax collections. The Committee observe that in the recent past, the share of direct taxes in the total tax collections has increased, which they feel is a healthy trend and should be maintained.

3. On the policy front, the Committee are of the view that there is an urgent need to undertake a review of the plethora of tax exemptions and various concessions both under the direct and indirect tax laws. These exemptions/concessions are being misused by unscrupulous elements to their advantage. Instances have been brought to the notice of the Committee that some of the private hospitals and nursing homes which earn crores of rupees, have

misused the exemptions provided for research activities. Similarly many of the Charitable trusts which are otherwise exempt from the income tax, misuse the provisions to their advantage. Though there have been efforts in the past to rationalize some of these provisions but the same have been done in a piecemeal manner. The Committee find that this aspect was also dealt with in detail by the Kelkar Committee. They desire that this area needs an immediate attention of the Government and must be dealt with on priority. One way of plugging this loophole is by making the filing of income tax returns mandatory for even such institutions/trusts which enjoy such exemptions.

4. The Committee observe that major portion of direct tax revenues come from the assesseees who form a minor portion of the total number of assesseees i.e. high end tax payers. The focus of the Government, however, has been on widening of the tax base by way of increasing the number of assesseees, which in fact may not result in quantum jump in the tax revenue. The Committee recommend that the Government, while making efforts to widen the tax base, should put specific focus on the high-end tax payers so as to increase the tax revenue substantially.

5. One important way of widening the tax base so far as the indirect taxes is concerned is through the service tax. The Committee take note of the fact that the Service Sector which contributes more than 50% of the GDP, pays less than 10% of the collection from all the indirect taxes. The Government have been expanding the reach of the service tax over the years and as on date 71 services are under the tax net. The Committee are of the view that there is enormous potential for mobilising more revenue from this sector and therefore, recommend that more and more services should be brought under the tax net as early as possible. At the same time, there is an urgent need to fix a minimum threshold limit, below which the service tax should not be levied.

6. While taking note of the efforts made by the Government to rationalise the tax structure, the Committee feel that in the prevailing economic situation in the country, the present slab structure in the income tax needs a review. They note the views expressed by FICCI/CII that lower tax rates result in more tax compliance and higher revenue collections. The Committee are of the view that whereas the existing rates of personal income tax and corporate tax are reasonable and compare favourably with other developing countries, there is a

need to review the personal income tax slabs with a view to give relief to the tax payers.

7. The Committee note that measures like Tax Deducted at Source (TDS) and Tax Collected at Source (TCS) are giving satisfactory results. They help the Government in identifying the potential tax payers and realise the taxes at the very point of transactions. They, however, find that coverage under these specific measures is somewhat restricted to certain areas only. They therefore desire that coverage under these be suitably enlarged so as to cover more activities.

8. The Committee also desire that the environment in the income tax offices is made assessee friendly so that there is an incentive for the tax payers to comply with the provisions of the law voluntarily. At present the whole environment is unfriendly and creates needless fear in the minds of the honest tax payers. Enough care needs to be taken to make the offices more assessee friendly and basic amenities such as proper seating and toilet arrangements, water etc. should be made available in the office premises. The Government should make an earnest effort by creating necessary infrastructure in this regard by inviting private participation. This should be an area requiring top most priority by the Government. In fact, the lessons need to be learnt from the developed countries where the tax payer has just to walk into any income tax office and file his returns and there he is helped and guided by the officials in a most friendly manner. There is an urgent need to change the mindset of tax officials to treat the visiting assessee as an honest citizen who wants to abide by the laws of the country. The Committee recommend that necessary inputs with a view to upgrade the image of the tax offices should be obtained from the tax assesseees and various corporate bodies. Further, they recommend that the Government should make sincere efforts in sensitising the tax officers, particularly those who come in direct contact with the public, in treating the visitors with dignity and courtesy.

9. The Committee are of the view that equal emphasis should be placed by the Government on the efforts to tackle evasion of tax. Ineffective steps taken to prevent evasion of taxes leads to creation of huge black money and prevalence of a parallel economy in the country. It is no secret that the Government also loses significant amount of revenue on account of this. This menace of uncontrolled evasion of taxes makes every effort to widen the tax base infructuous.

To counter this situation, a strong will and sincere efforts on the part of the Government are called for. In this connection the Committee suggest that the anti evasion machinery of the tax departments should be adequately strengthened. The Committee note that VDIs scheme was introduced in the year 1997 with a view to induce the tax evaders to declare their income. The Committee are however, disheartened to note that even after a lapse of more than seven years, the Government have made no effort to track down those beneficiaries who have not so far filed their returns. They note that the Comptroller and Auditor General (CAG) has also commented adversely in this regard. They are of the opinion that that there should be no legal hurdle in sending notices to such beneficiaries. They desire that such beneficiaries should be identified immediately and stringent action be taken against them which otherwise will send a very wrong message particularly to the honest tax payers.

10. There are certain provisions under the direct tax laws that are, in the opinion of the Committee, being misused to evade taxes. The Agricultural income is one such area which is exempt under the Income Tax Act and under the garb of agricultural income even the income which is accruing from non-agricultural activities such as leasing of the agricultural implements, commercial use of large farm houses, money ending activities etc. is not being declared as income by some of the unscrupulous persons. The Committee recommend that Government must take effective measures in this regard and ensure that such non-agricultural income is brought under the tax net without further delay.

11. The Committee find that some of the people who make ostentatious display of their wealth by making extravagant expenditure on marriages and birthday parties often go scot-free and escape the tax net. Though the existing provisions under the Income Tax Act do empower the income tax officers to conduct surveys but in practice hardly any such surveys are undertaken. The Committee therefore recommend that such surveys ought to be conducted regularly with a view to keep an eye on the lavish expenditure pattern of the individuals so that unaccounted money could be detected and taxes properly.

12. Another area of generation of black money and avoidance of tax is through real estate benami transactions. Though there are already suitable provisions under the income tax Act to tackle this

menace, but nothing much has so far been done to curb this practice effectively and people are flouting the same with impunity. The Committee desire that the Government should take effective steps forthwith to deal with this menace. They want that defaulters should be dealt with an iron hand and deterrent penalties imposed on them.

13. The areas of evasion as far as central excise is concerned are in iron and steel, capital goods and also the high tariff commodity like Pan Masala, Gutaka, Cigarette etc. and the exports incentive schemes, location based exemption schemes and CENVAT credit. On the custom side, the types of evasion that are commonly noticed are misuse of schemes like DEEC, EPCG, 100% EOU and free trade agreements like that between India and Sri Lanka, Nepal and also with other countries with whom Free Trade Agreements (FTAs) exist. The efforts made by the Government to combat such evasions are, audit measures like Excise Audit (EA) 2000, scrutiny of financial records, prescription of Annual Financial Information statement etc.

14. The Committee note that though provisions like 14A and Section 14AA of the Central Excise Act, which provide for special audit exist in the Statute Book, the same are not being used properly. In this regard, the Committee take note of the Government reply that necessary steps are being taken to overcome some of the bottlenecks such as the issue of payment to the Auditors. They are of the firm view that special audit should be conducted regularly and at frequent intervals in order to check the menace of tax evasion. The Committee are given to understand that the strategies devised in order to curb evasion of customs duties are computerisation of custom procedures, conducting studies on export promotion schemes, bilateral exchange of information with other countries etc. The Committee observe that though the Department has been making special efforts to tackle evasion of indirect taxes by setting up of National Import Database (NID) and having Self-Assessment and Risk Management System (RMS), still large scale evasion of duties is in prevalence. The Committee are given to understand that these grey areas have been in the knowledge of the Government but no effective efforts have been made to combat this menace due to unexplained reasons. The possibilities of collusion with tax authorities cannot be denied. The Committee recommend the Government to come out with certain concrete proposals to plug and loopholes at least in the areas which are known to be misused and which have not been addressed till now. At the same time they want that the accountability of erring officials be fixed diligently and without fear or favour.

15. The Committee find that in order to effectively combat the evasion, action plan has been drawn by DGCEI which will minimize the tax evasion. They also find that proposal for strengthening the anti-evasion machinery by creating more zonal/regional units and providing additional staff to the existing units is under examination of the Board. Similarly, they note with satisfaction that a mechanism has been put in place to prevent evasion of customs duty. They, therefore, recommend that Government should accord necessary approval as early as possible for strengthening the anti-evasion machinery. The Committee recommend that more stringent measures should be initiated by the Government besides posting the specialised staff and making sophisticated equipments available to the enforcement staff, to tackle the issue. The Committee are of the opinion that further rationalisation and reduction in the rates of indirect taxes would significantly reduce the incentive for evasion.

16. The Committee note with satisfaction that the initiatives taken in respect of the direct taxes are in the right direction in so far as two major initiatives have been taken in the year 2004, namely, Annual Information Report (AIR) and Tax Information Network (TIN) through which the tax authorities intend to track down the high value transactions by integrating different offices which are collecting the taxes both direct as well as indirect. In addition, the On line Tax Accounting System (OLTAS) has also been made operational w.e.f. 1.6.2004. The Committee are in agreement with the Government that once information starts pouring in from the Annual Information Reports, it will lead to detection of evasion which will also act as a deterrent towards evasion of taxes. Added to this, the compulsory quoting of PAN will discourage the evasive tendencies. The steps taken by the Government in the area of computerisation will make the sharing of information between Income tax, Central Excise at the Union level and the Sales Tax at the State level possible. The Committee feel that though these measures will go a long way in widening the tax base and help in reducing tax evasion in the country, but nothing substantial can be achieved till there a complete synergy in sharing of the information not only between the various tax departments (both direct and indirect) but also with the rest of the financial systems in its entirety. There is an imperative need to establish synergy among the financial activities and the related systems. They are however, of the view that unless and until this system is made operative expeditiously no substantial results can be achieved. The process of computerization itself in the Income Tax Department has taken a long time and the fact remains that even as



on date only 60 cities in the country have been inter linked under the direct taxes and 450 cities are yet to be inter-connected. Even filing of income tax returns electronically is possible only in a few cities. The Committee recommend that the work with regard to integration with the help of tax information network should be completed on priority within a year as already assured by the Government. They also desire that in order to make the synergy more meaningful the Government must formulate a single comprehensive tax identification number, for all taxation purposes as well as finance related activities which would help in identification of each assessee and easy correlation of his transactions.

17. The Committee take note of the various steps taken by the Government to reduce the interface between the tax payer and taxmen both under direct and indirect laws. They are of the considered view that the interface between the two often breeds corruption. Dissemination of tax and PAN related information on the Net, electronic filing of TDS returns and electronic credit of refunds are prominent measures in this regard. They also find that tax officials are enjoying wide powers to use them at their discretion in both direct and indirect taxes. In their opinion this is the root cause of corruption. They want the Government to review and try to minimise such provisions. They have been informed that there is adequate mechanism to monitor the activities of tax officials and action is taken against the erring officials. They however, find that the action taken and the results thereof, on the disciplinary cases, is not upto the mark. They want the Government to come out with a mechanism, which will ensure speedy disposals of disciplinary cases against erring tax officials and desire that stringent legal and timely punishment should be meted out to the delinquent officials. The Committee also recommend more decentralisation of administrative and financial powers to the field formations to facilitate quicker decision making and effective tax administration.

18. The Committee observe that existing tax laws are very complex. Many tax payers are unable to comprehend the intricacies of various provisions and therefore do not comply with the same. Besides, a plethora of notifications are issued both by the CBDT/CBEC during the course of the year which instead of simplifying the matter rather creates complications in the interpretation of the laws. They, therefore, desire that this tendency should be curbed and used only in the event of urgency and sparingly. It is therefore important that the laws are made more transparent and all the

provisions which allow wide discretionary powers to the officers are done away with so that there is no scope left for different interpretations of the provisions at any level. This will also go a long way in reducing the court cases. They understand that the Government have been taking steps to simplify the existing laws, but they feel that still vast scope is there for further simplification. They desire that tax laws (both direct and indirect) should be made simpler so as to induce voluntary compliance and this task should be undertaken on top priority.

19. The Committee are deeply concerned about the way in which the Government's cases are represented in various tribunals and courts of appeal. In a number of cases, the Government nominated counsels do not present the cases properly. Such inept handling of the cases ends up in losing many cases, resulting in loss of crores of rupees of tax revenue. Hence, the Committee is of the view that the system of appointment of counsels needs an overhauling. There is a need for decentralisation of appointment of the counsels. In this regard, the Committee find that in respect of Direct Taxes, the Chief Commissioners are authorised to engage local lawyers and they are consulted before renewal of the panel of counsels. But, so far as the Indirect Taxes are concerned, the Ministry of Law makes the appointment of panel advocates. The Committee recommend that like the Chief Commissioners of Income-Tax, the Chief Commissioners of Customs and Central Excise should also be authorised to engage competent lawyers so that Government cases are effectively presented in the Courts of Law. Further, they suggest that the performance of such lawyers should be regularly monitored and evaluated, and only the performing advocates should be retained in the panel. At the same time. They want the Government to avoid entering into needless litigation. They are of the view that Government should only pursue cases having substantial legal points in appeal. This will, in their view save valuable time and money. The Committee are given to understand that there was a proposal to set up the National Tax Tribunal and a Bill to that effect was introduced in 13th Lok Sabha which lapsed on the dissolution of the same. They are of the view that the setting up of the Tribunal will go a long way in dealing with the legal aspects concerning tax departments. Hence, the Committee urge the Government to set up the proposed National Tax Tribunal (NTT) expeditiously.

NEW DELHI;  
9 February, 2005  
20 Magha, 1926 (Saka)

MAJ. GEN. (RETD.) B.C. KHANDURI  
Chairman,  
Standing Committee on Finance.

MINUTES OF THE SIXTH SITTING OF STANDING  
COMMITTEE ON FINANCE

The Committee sat on Tuesday, 5th October 2004 from 1530 to  
1850 hrs.

PRESENT

Maj. Gen. (Retd.) B.C. Khanduri—*Chairman*

MEMBERS

*Lok Sabha*

2. Shri Jaswant Singh Bishnoi
3. Shri Gurudas Dasgupta
4. Shri Shyama Charan Gupta
5. Shri A. Krishnaswamy
6. Shri Bir Singh Mahato
7. Shri Rupchand Pal
8. Shri K.S. Rao
9. Shri Lakshman Seth
10. Shri G.M. Siddeshwara
11. Shri M.A. Kharabela Swain
12. Shri Vijoy Krishna

*Rajya Sabha*

13. Shri Murli Deora
14. Shri R.P. Goenka
15. Shri Jairam Ramesh
16. Shri Chittabrata Mazumdar
17. Shri S.P.M. Syed Khan
18. Shri C. Ramachandraiah
19. Shri Mangani Lal Mandal

SECRETARIAT

1. Shri P.D.T. Achary — *Secretary*
2. Dr. (Smt.) P.K. Sandhu — *Joint Secretary*
3. Shri R.K. Jain — *Deputy Secretary*
4. Shri R.C. Kakkar — *Under Secretary*

## WITNESSES

**Ministry of Finance (Department of Revenue)**

1. Shri N.S. Sisodia, Secretary (Revenue)
2. Shri Satish Chandra, Additional Secretary (Revenue)
3. Shri Rakesh Singh, Joint Secretary (Revenue)

**Central Board of Direct Taxes (CBDT)**

1. Smt. Shobha Majumdar, Chairperson
2. Shri Berjinder Singh, Member (Revenue)
3. Shri V.S. Mathur, Director General of Income Tax (Systems)
4. Shri K. Rangabashayam, Director General of Income Tax
5. Shri Akhilesh Ranjan, Joint Secretary
6. Shri S.S. Khan, Director of Income Tax (System)
7. Shri Vikram Sahay, Deputy Secretary (IT-Inv. I)

**Central Board of Excise and Customs (CBEC)**

1. Shri A.K. Singh, Chairman
2. Shri J.N. Nigam, Member
3. Shri S.K. Bhardwaj, Member (Budget/P&V)
4. Shri B.K. Mishra, Member (L&J)
5. Shri Siddharth Kak, Member (Customs)
6. Shri S. Chandra, Member (RI & I-ST)
7. Shri A.K. Raha, Director General (Systems)
8. Shri Joginder Singh, Director General (Vigilance)
9. Shri S.P.S. Pundir, Director General, C.Ex. Intelligence
10. Shri A.P. Sudhir, Director General (Revenue Intelligence)
11. Shri Gautam Ray, Joint Secretary (TRU)
12. Shri Kishan Singh, Joint Secretary (Customs)
13. Ms. Sheila Sangwan, Joint Secretary (Review)
14. Shri Arun Sahu, ADG, Dte of Systems
15. Shri Sanjiv Sachdeva, ADG, (Dte of Central Excise Intelligence)

2. At the outset, the Chairman welcomed the Members to the sitting of the Committee and explained the purpose of the sitting and invited their attention to Direction 55 of the Directions by the Speaker.

3. Thereafter, he invited the representatives of the Ministry of Finance (Deptt. of Revenue) to brief the members on the subject 'Widening of Tax Base and Tax Evasion' with the aid of an audio-visual presentation.

4. After the Visual presentation was over the Committee sought clarifications on the certain points from the representatives of the Ministry which were replied. Thereafter, the Chairman asked the officials of the Ministry to furnish written information/replies to the queries raised by the Members to which material was not readily available with them.

5. The briefing was concluded.

6. A verbatim record of proceedings has been kept.

*The witnesses then withdrew.*

MINUTES OF THE THIRTEENTH SITTING OF STANDING  
COMMITTEE ON FINANCE

The Committee sat on Monday, 17 January, 2005 from 1130 to  
1330 hrs. and again 1645 to 1715 hrs.

PRESENT

Maj. Gen. (Retd.) B.C. Khanduri—*Chairman*

MEMBERS

*Lok Sabha*

2. Shri Bhartruhari Mahtab
3. Shri Gurudas Kamat
4. Shri Bir Singh Mahato
5. Shri Madhusudan Mistry
6. Shri Rupchand Pal
7. Shri K.S. Rao
8. Shri Jyotiraditya Madhavrao Scindia
9. Shri Ajit Singh
10. Shri M.A. Kharabela Swain
11. Shri Vijoy Krishna
12. Shri Magunta Sreenivasulu Reddy

*Rajya Sabha*

13. Shri R.P. Goenka
14. Shri Jairam Ramesh
15. Shri Yashwant Sinha
16. Shri Chittabrata Majumdar
17. Shri S.P.M. Syed Khan
18. Shri C. Ramachandraiah

SECRETARIAT

1. Dr. (Smt.) P.K. Sandhu — *Joint Secretary*
2. Shri R.K. Jain — *Deputy Secretary*
3. Shri R.C. Kakkar — *Under Secretary*

## WITNESS

Shri Ravi Kant, Retd. Chairman, CBDT.

2. At the outset, the Chairman welcomed Shri Ravi Kant, Retd. Chairman, CBDT to the sitting of the Committee and invited his attention to the provisions contained in direction 55 of the Directions by the Speaker.

3. The Committee then took oral evidence of Shri Ravi Kant on the subject "Widening of Tax Base and Evasion of Tax". After the briefing on the subject had concluded, the Members sought clarifications on certain issues. Then the witness replied on some of the clarifications raised by the Members.

4. Thereafter, the Chairman requested the witness to furnish notes on points raised by the Members to which replies were not readily available with him during the discussion.

5. The evidence was concluded.

6. A verbatim record of proceedings has been kept.

*The witness then withdrew.*

## PART—II

**(from 1645 to 1715 hours)**

## WITNESSES

**FICCI**

1. Shri Onkar S. Kanwar, President
2. Dr. Amit Mitra, Secretary General
3. Shri Vinod Gupta, Senior Director

2. At the outset, the Chairman welcomed the representatives of FICCI to the sitting of the Committee and invited their attention to the provisions contained in direction 55 of the Directions by the Speaker.

3. The Committee then took oral evidence of the representatives of FICCI on the subject "Widening of Tax Base and Evasion of Tax". After the briefing on the subject by the representatives of FICCI, the

Members sought certain clarifications. Then the representatives of FICCI replied on some of the queries raised by the Members.

4. Thereafter, the Chairman requested the representatives of FICCI to furnish notes on points raised by the Members to which replies were not readily available with them during the discussion.

5. The evidence was concluded.

6. A verbatim record of proceedings has been kept.

*The witnesses then withdrew.*

*(The Committee then adjourned to meet again on  
18 January, 2005 at 1100 hours)*



MINUTES OF THE FOURTEENTH SITTING OF STANDING  
COMMITTEE ON FINANCE

The Committee sat on Tuesday, 18 January, 2005 from 1100 hrs. to 1200 hrs. and again 1200 hrs. to 1330 hrs.

PRESENT

Maj. Gen. (Retd.) B.C. Khanduri—*Chairman*

MEMBERS

*Lok Sabha*

2. Shri Gurudas Dasgupta
3. Shri Bhartruhari Mahtab
4. Shri A. Krishnaswamy
5. Shri Bir Singh Mahato
6. Shri Madhusudan Mistry
7. Shri Rupchand Pal
8. Shri Shrinivas D. Patil
9. Shri K.S. Rao
10. Shri Jyotiraditya Madhavrao Scindia
11. Shri M.A. Kharabela Swain
12. Shri Vijoy Krishna
13. Shri Magunta Sreenivasulu Reddy

*Rajya Sabha*

14. Shri Jairam Ramesh
15. Shri Yashwant Sinha
16. Shri Chittabrata Majumdar
17. Shri C. Ramachandraiah
18. Shri Mangani Lal Mandal

SECRETARIAT

1. Shri P.D.T. Achary — *Secretary*
2. Dr. (Smt.) P.K. Sandhu — *Joint Secretary*
3. Shri R.K. Jain — *Deputy Secretary*
4. Shri R.C. Kakkar — *Under Secretary*

## WITNESS

Dr. Govind Rao, Director, National Institute of Public Finance & Policy.

2. At the outset, the Chairman welcomed Dr. Govind Rao, Director, NIPFP to the sitting of the Committee and invited his attention to the provisions contained in direction 55 of the Directions by the Speaker.

3. The Committee then took oral evidence of Dr. Govind Rao, Director, NIPFP on the subject Widening of Tax Base and Evasion of Tax. After the briefing on the subject by Dr. Govind Rao the Members sought some clarifications. Then Dr. Govind Rao replied on some of the queries raised by the Members.

4. Thereafter, the Chairman requested Dr. Govind Rao to furnish notes on points raised by the Members to which replies were not readily available with him during the discussion.

5. The evidence was concluded.

6. A verbatim record of proceedings has been kept.

*The witness then withdrew.*

## PART-II

**(from 1200 hrs. to 1330 hours)**

## WITNESSES

**Confederation of Indian Industry**

1. Shri Sunil Kant Munjal, President, CII
2. Shri N. Srinivasan, Director General, CII
3. Shri S. Sen, Dy. Director General, CII
4. Shri Naishadh Parikh, Senior Member, CII Economic Affairs Committee & Chairman CII Core Group on VAT
5. Dr. Rajiv Kumar, Chief Economist, CII
6. Shri Vikram Badshah, Sr. Consultant, CII
7. Shri K.S. Ghai, Sr. Adviser, CII
8. Shri N.B. Mathur, Adviser, CII
9. Shri Sandeep Kaundal, Executive Officer

2. At the outset, the Chairman welcomed the representatives of the Confederation of Indian Industry (CII) to the sitting of the Committee and invited their attention to the direction 55 of the Directions by the Speaker, Lok Sabha.

3. The Committee then took oral evidence of the representatives of CII in connection with the examination on the subject "Widening of Tax Base and Evasion of Tax". After the briefing on the subject by the representatives of CII, the Members raised some queries. Then the representatives of CII replied on some of the queries raised by the Members.

4. Thereafter, the Chairman requested the representatives of CII to furnish notes on points raised by the Members to which replies were not readily available with them during the discussion.

5. The evidence was concluded.

6. A verbatim record of the proceedings has been kept.

*The witnesses then withdrew.*

MINUTES OF THE FIFTEENTH SITTING OF STANDING  
COMMITTEE ON FINANCE

The Committee sat on Tuesday, 27 January, 2005 from 1100 hrs. to  
1350 hrs.

PRESENT

Maj. Gen. (Retd.) B.C. Khanduri—*Chairman*

MEMBERS

*Lok Sabha*

2. Shri Bhartruhari Mahtab
3. Shri Shyama Charan Gupt
4. Shri A. Krishnaswamy
5. Shri Bir Singh Mahato
6. Shri Madhusudan Mistry
7. Shri Rupchand Pal
8. Shri Shriniwas D. Patil
9. Shri M.A. Kharabela Swain

*Rajya Sabha*

10. Shri M. Venkaiah Naidu
11. Shri Chittabrata Majumdar
12. Shri C. Ramachandraiah
13. Shri Mangani Lal Mandal

SECRETARIAT

1. Shri P.D.T. Achary — *Secretary*
2. Shri R.K. Jain — *Deputy Secretary*
3. Shri R.C. Kakkar — *Under Secretary*

## WITNESSES

**Ministry of Finance (Department of Revenue)**

1. Shri K.M. Chandrasekha — Secretary
2. Shri Rakesh Singh — Joint Secretary

**CBDT**

1. Smt. Sobha Majumdar — Chairperson
2. Shri Berjinder Singh — Member (R & Inv.)
3. Shri M.S. Darda — Member (P)

**CBEC**

1. Shri A.K. Singh — Chairman
2. Shri J.N. Nigam — Member (CX)
3. Shri R.K. Tiwari — Member (Budget and R&V)
4. Shri B.K. Misra — Member (L&J)
5. Shri M. Jayaraman — Member (Customs)
6. Shri S. Chandra — Member (RI & I & ST)

2. At the outset, the Chairman welcomed the representatives of the Ministry of Finance (Department of Revenue) to the sitting of the Committee and invited their attention to the provisions contained in direction 55 of the Directions by the Speaker, Lok Sabha.

3. The Committee then took oral evidence of the representatives in connection with the examination of the "Widening of Tax Base and Evasion of Tax". After the briefing on the subject by the representatives of the Department of Revenue the Members raised some queries. Then the representatives of the Ministry of Finance (Department of Revenue) replied on some of the queries raised by the Members.

4. Thereafter, the Chairman directed the representatives of the Ministry to furnish replies to the points raised by Members which were not readily available with them.

5. The evidence was concluded.

6. A verbatim record of the proceedings has been kept.

*The witnesses then withdrew.*

MINUTES OF THE SIXTEENTH SITTING OF STANDING  
COMMITTEE ON FINANCE

The Committee sat on Friday, 4th February, 2005 from 1200 hrs. to  
1330 hrs.

PRESENT

Maj. Gen. (Retd.) B.C. Khanduri—*Chairman*

MEMBERS

*Lok Sabha*

2. Shri Bhartruhari Mahtab
3. Shri A. Krishnaswamy
4. Shri Bir Singh Mahato
5. Dr. Rajesh Kumar Mishra
6. Shri Madhusudan Mistry
7. Shri Rupchand Pal
8. Shri Lakshman Seth
9. Shri G.M. Siddeshwara
10. Shri M.A. Kharabela Swain
11. Shri Magunta Sreenivasulu Reddy

*Rajya Sabha*

12. Shri Murli Deora
13. Shri R.P. Goenka
14. Shri Jairam Ramesh
15. Shri M. Venkaiah Naidu
16. Shri Yashwant Sinha
17. Shri Chittabrata Majumdar
18. Shri S.P.M. Syed Khan
19. Shri C. Ramachandraiah

SECRETARIAT

1. Shri P.D.T. Achary — *Secretary*
2. Dr. (Smt.) P.K. Sandhu — *Joint Secretary*
3. Shri R.K. Jain — *Deputy Secretary*
4. Shri R.C. Kakkar — *Under Secretary*

2. At the outset, the Chairman welcomed the Members to the sitting of the Committee.

3. The Committee then took up the draft report for consideration on the subject 'Widening of Tax Base and Evasion of Tax'. The Committee after deliberating on the issues as well as the recommendations contained in the Report at length, decided to present a preliminary report on the subject and also to present the final Report on this subject after seeking views of the public as well as of the taxation experts on the subject.

7. The Committee authorized the Hon'ble Chairman to finalise the preliminary Report taking into consideration the suggestions/modifications suggested by some of the members during the sitting and also present the same to the Hon'ble Speaker.

*The Committee then adjourned.*