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**STANDING COMMITTEE
ON FINANCE
(2005-2006)**

FOURTEENTH LOK SABHA

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

**DEMANDS FOR GRANTS
(2005-2006)**

*[Action taken by the Government on the recommendations contained
in the Seventeenth Report of the Standing Committee on Finance
on Demands for Grants (2005-2006) of the Ministry of
Finance (Department of Revenue)]*

TWENTY NINTH REPORT



सत्यमेव जयते

**LOK SABHA SECRETARIAT
NEW DELHI**

December, 2005/Pausa, 1927 (Saka)

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STANDING COMMITTEE ON FINANCE
(2005-2006)

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(DEPARTMENT OF REVENUE)

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Presented to Lok Sabha on 22.12.2005

Laid in Rajya Sabha on 22.12.2005



LOK SABHA SECRETARIAT
NEW DELHI

December, 2005/Pausa, 1927 (Saka)

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COMPOSITION OF STANDING COMMITTEE ON
FINANCE—2005-2006

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 Gupta
6. Shri Gurudas Kamat
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Rajya Sabha

22. Shri Murli Deora
23. Shri R.P. Goenka
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27. Shri Chittabrata Majumdar
28. Shri S.P.M. Syed Khan
29. Shri Amar Singh
30. Shri C. Ramachandraiah
31. Shri Mangani Lal Mandal

SECRETARIAT

- | | | |
|----------------------------|---|-----------------------------|
| 1. Shri John Joseph | — | <i>Secretary</i> |
| 2. Dr. (Smt.) P.K. Sandhu | — | <i>Additional Secretary</i> |
| 3. Shri A. Mukhopadhyay | — | <i>Joint Secretary</i> |
| 4. Shri S.B. Arora | — | <i>Deputy Secretary</i> |
| 5. Shri T.G. Chandrasekhar | — | <i>Under Secretary</i> |
| 6. Shri M.L.K. Raja | — | <i>Committee Officer</i> |

INTRODUCTION

I, the Chairman of the Standing Committee on Finance, having been authorized by the Committee to submit the Report on their behalf present this Twenty-Ninth Report on action taken by Government on the recommendations contained in the Seventeenth Report of the Committee (Fourteenth Lok Sabha) on Demands for Grants (2005-06) of the Ministry of Finance (Department of Revenue).

2. The Seventeenth Report was presented to Lok Sabha/laid in Rajya Sabha on 20th April, 2005. The Government furnished the replies indicating action taken on all the recommendations on 27th July, 2005. The Draft Action Taken Report was considered and adopted by the Standing Committee on Finance at their sitting held on 19 December, 2005.

3. An analysis of the action taken by the Government on the recommendations contained in the Seventeenth Report of the (Fourteenth Lok Sabha) of the Committee is given at Appendix.

4. For facility of reference observations/recommendations of the Committee have been printed in thick type in the body of the Report.

NEW DELHI;
21 December, 2005

30 Agrahayana, 1927 (Saka)

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

CHAPTER I

REPORT

This Report of the Standing Committee on Finance deals with action taken by the Government on the recommendations/observations contained in their Seventeenth Report (Fourteenth Lok Sabha) on Demands for Grants (2005-06) of the Ministry of Finance (Department of Revenue) which was presented to Lok Sabha/Laid in Rajya Sabha on 20 April, 2005.

2. The Report contained 9 recommendations. Action taken notes have been received from the Government in respect of all the recommendations contained in the Report. These have been categorised as follows:

- (i) Recommendations/Observations which have been accepted by the Government:

Recommendation Nos. 1, 3, 5 & 6

(Total 4)

(Chapter II)

- (ii) Recommendations/Observations which the Committee do not desire to pursue in view of the Government's replies:

Recommendation Nos. 2, & 9

(Total 2)

(Chapter III)

- (iii) Recommendations/Observations in respect of which replies of the Government have not been accepted by the Committee:

Recommendation Nos. 4, 7 & 8

(Total 3)

(Chapter IV)

- (iv) Recommendations/Observations in respect of which final replies of the Government were still awaited:

(Total Nil)

(Chapter V)

3. The Committee desire that the replies to the recommendations contained in Chapter I may be furnished to them expeditiously.

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

Vigilance Mechanism

Recommendation (Sl. No. 4, Para No. 43)

5. The Committee felt that ensuring strict vigilance action against corrupt officials not only discourages corruption, but also encourages uprightness and gives moral courage to the honest officers. They further felt that the extent of the efficiency of the vigilance mechanism decides the relative extent of evasion of tax. They observed that one of the major causes for corruption in tax departments relates to connivance of the corrupt officials with the evaders. The Committee were constrained to notice that there were many vigilance cases that were pending and advised the Government to speed up disposal of the cases by making special efforts.

6. The Government, in their action taken reply, stated as follows:

“Central Board of Direct Taxes:

The Director General of Income Tax (Vig.) {DGIT (Vig.)} & Chief Vigilance Officer (CVO), Central Board of Direct Taxes (CBDT) are already seized of the matter. Every year, the DGIT (Vig.) & CVO, CBDT prepares an Action Plan for disposal of cases pertaining to complaints, investigation and disciplinary proceedings etc. for all the four Directorates of Income Tax (Vig.) and monitors their performance on monthly basis. Wherever the shortfall, the concerned Director of Income Tax (Vig.) is directed to put extra efforts so that the targets are met. In the cases of long delayed Inquiry Proceedings the DGIT (Vig.) has written D.O. letters to the Inquiry Officers (IOs) indicating the specific date before which they should send their reports. Apart from this, the cadre controlling Chief Commissioners of Income Tax have been requested to impress upon the IOs working in their Charges to complete the Inquiry Proceedings within six months of their appointment as IOs and in case of delay on the latter’s part take serious action against them. However, due to shortage of adequate manpower, both at the officer level and the supporting staff and also due to lack of proper infrastructure, it has not been possible to cope with the increasing workload which has resulted in increase in pendency of vigilance

cases. Instructions have been issued to all the four Regional Directors of Income Tax (Vig.) to strictly abide by the time stipulations laid down by the CVC *vide* their letter No. 000/VGL/18 dated 23.05.2000 while dealing with vigilance matters.

Central Board of Excise and Customs:

As regards Committee's observation regarding pendency of vigilance cases and speedy disposal of the same, special efforts are being made to speed up disposal of vigilance cases. As a part of these efforts, Chief Commissioners have been requested to advise all the disciplinary authorities *viz.* Commissioners, Addl./Joint Commissioners under their charge to ensure that charge memos wherever warranted are issued expeditiously. The Inquiry Officer/ Presenting Officer are promptly appointed after taking prompt decision on written statements of defence, matter is pursued with IOs to conclude inquiries early and decisions on inquiry reports are taken promptly. The Chief Commissioners have also been requested to ensure that vigilance cases in their jurisdictions are effectively monitored by senior officers. It is hoped that these efforts would contribute to expeditious disposal of the vigilance cases."

7. The Committee had, upon considering the large quantum of vigilance cases pending and the importance of maintaining a corruption-free environment in the tax offices, recommended for ensuring speedy disposal of the cases. In response thereto, the Government have detailed the measures initiated in this direction. The Committee observe from the reply that so far as the Central Board of Direct Taxes (CBDT) are concerned, problems of shortage of manpower and lack of proper infrastructure hinder quick disposal of the cases. The Committee want the Government to address the issue expeditiously, so as to ensure a corruption-free environment in the tax offices, which would be in the larger interest of the people as well as the economy as a whole. In so far as the Central Board of Excise and Customs (CBEC) are concerned, the Committee note that some special efforts are being taken to dispose of the pending vigilance cases. However, the relatively large number of vigilance cases booked and the negligible number of cases disposed of are matters of serious concern to the Committee, which need to be addressed with utmost seriousness. In this regard, the Committee desire that the Government should take appropriate measures to ensure that the stipulations laid down by the CVC in dealing with vigilance matters are strictly adhered to. The Committee also desire that periodical targets for disposal of vigilance cases should be fixed. They also wish to be kept apprised of the details of the number of vigilance cases pending and disposed of.

Computerisation Efforts

Recommendation (Sl. No. 6, Para Nos. 109 and 110)

8. The Committee had, in one of their earlier reports, recommended that Computerisation should be done in such a manner that all the departments involved in tax collections were able to interchange information between them. Further, the Committee had recommended for devising a unique identification number not only for various taxation purposes but also for all the financial transactions in the economy. The Committee, reiterated the recommendations made in the earlier report and desired that the Government should view the process of Computerisation in a holistic manner with a centralised supervisor to monitor formulation and execution of various computerisation projects being undertaken at present as well as in the future and bring them under one single umbrella. This, the Committee, desired to be done within a specified time frame. The committee also wanted to be apprised of the decision of the Government and further progress in that regard.

9. The Committee further desired that, keeping in mind the critical importance of Computerisation of all the tax departments, a consolidated demand and expenditure should be introduced in the demands for grants for the computerisation efforts. The Committee also desired that the Government should come out quickly with a "White Paper" on Information Technology in Tax Administration that would provide a comprehensive overview of what was being done and what was proposed to be done to use IT to widen the tax base and increase tax collections, covering CBDT, CBEC and VAT as well. The Committee were of the opinion that with the computerisation of the tax administration, the Government should seriously look into the possibility of maximising the scrutiny of tax returns.

10. The Government in their action taken reply stated as under:

"Central Board of Direct Taxes:

- (i) The recommendation of the Committee to create a unique identifier for exchange of information between various taxation departments was accepted. PAN has been conceived of as the unique taxpayer identifier between various taxation departments. Both Income Tax as well as Customs and

Central Excise Departments are using PAN or PAN based identification numbers in their computerisation programme.

- (ii) The reconstituted Empowered Committee has the mandate to look after the computerisation projects in different departments under the Department of Revenue as a coordinated project.
- (iii) The empowered Committee is acting as the centralized supervisor to monitor formulation and execution of various Computerisation projects being undertaken in the Department of Revenue.

Central Board of Excise and Customs:

"CBEC has been using PAN as a common business identifier in all its operations. State Governments, however, have declined to adopt PAN as a mandatory common identifier in VAT implementation."

11. The Government, in their action taken reply also stated as under:

"The Empowered Committee mentioned in the reply to the observations in para 107 serves to coordinate the computerization programmes in the area of taxation. However, since the implementation of the programmes is done by different agencies for Direct Taxes and Indirect Taxes, it may not be practical to consolidate the demand and expenditure and show under one demand.

A White Paper will be brought out shortly as suggested by the Committee."

12. The Committee, considering the advantages that shall accrue from the computerization efforts recommended for initiating efforts for having a 'unique tax identification number', which would help in better interconnectivity between various tax departments of the country, including that of the tax machinery of the States. The Committee note that the Government have taken up their recommendation in the right earnest by conceiving the Permanent Account Number (PAN) as the unique tax payer identifier for exchange of information between various taxation departments. However, the Central Board of Excise and Customs (CBEC) have, in their reply, stated that the State Governments have declined to adopted PAN as a mandatory common identifier in VAT implementation. The Committee advise the Government to take up

the matter with the 'Empowered Committee on VAT' so that the benefits accruing from a 'single' or 'unique' tax payer identifier system are realised by the States as well.

13. The Committee note that in deference to their suggestion, the Government have reconstituted the Empowered Committee to act as the central supervisor for purposes of monitoring, formulation and execution of various computerization projects of the Department of Revenue. The Committee further note that as recommended by them, the Government have agreed to bring out a White Paper on 'Information Technology in Tax Administration'. The Committee would appreciate if the 'White Paper' is prepared and brought out at the earliest.

Arrears of Revenue

Recommendation (Sl. No. 7, Para Nos. 119, 120 & 121)

14. The Committee observed that the Government had, in the last year's budget, mentioned that collection of arrears of tax revenue would be one of the main source of increase in tax revenue and also fixed a target in regard thereto.

15. They noted with concern that the extent of realization of arrears of the personal income tax component of Direct Taxes upto February, 2005 raised doubts about the achievability of the balance targets. There was also considerable deficiency in regard to realisation from the Indirect Taxes too. They found this to be a serious failure as the target fixed was to be realised out of such tax arrears that were not contested and were not under any process of litigation. They sought specific reasons for the same from the Government.

16. They further noted that though the targets of Tax revenue for the year 2005-06 had not been announced publicly, internal targets had been set. The Committee were not in agreement with the changed policy of setting internal targets and urged the Government to come out publicly with the targets fixed for collecting uncontested revenue arrears.

17. The Government in their action taken reply stated as under:

"Central Board of Direct Taxes:

The Government had in the Budget for 2004-05 fixed a target of Rs. 7,000 crore for recovery of arrears of direct taxes. Against this target, the Government collected an amount of Rs. 7,083 crore.

In the Budget Estimates of direct tax collections for 2005-06, the collections on account of arrear-recovery is already incorporated, though no quantification of the estimated collections of arrears has been made in the Budget document. However, the Government has set an internal target to collect Rs. 10,342 crore from the arrears of direct taxes, which is about 45% more than the actual collections of 2004-05. These targets are for the entire arrear amount brought forward from last year.

Central Board of Excise and Customs:

For the financial year 2004-05, targets of Rs. 750 crore and Rs. 2250 crore were fixed for Customs and Central Excise arrears collections respectively. The actual realisations were Rs. 843.49 crore and Rs. 1799.38 crore for Customs and Central Excise respectively. Overall for indirect taxes, 88% of the target was achieved. It is mentioned that targets were fixed not only with reference to uncontested tax arrears but also contested arrears *i.e.* cases where stay applications were pending with Tribunal/Commissioners (Appeals) and also cases where permissible appeal period was not over and parties were likely to go in appeal.

In the Budget Estimates of indirect tax collections for 2005-06, the collections on account of arrears recovery is already incorporated, though no separate quantification of the estimate of arrears collection targets has been made in the Budget document. The targets are fixed not only with reference to uncontested tax arrears but also, *inter-alia*, with reference to cases pending before appellate authorities, where stay application are pending.”

18. The Committee note that except for Central Excise, the recovery of arrears of tax exceeded the targets as envisaged in the Budget for the year 2004-05. However, in regard to the recommendation of the Committee that the Government should continue to come out publicly with the targets fixed for recovery of arrears, the Ministry have inter alia stated that though the estimated collections of tax arrears have not been quantified in the Budget document for 2005-06, internal targets are fixed for recovery of such arrears. The Committee do not agree with this change of policy and therefore reiterate their recommendation for specifically setting out the targets for recovery of tax arrears in the Budget document in the coming years. The Committee also recommend that the Government formulate a concrete action plan for revering the tax arrears in entirety by devising separate means for recovering of contested and uncontested arrears. The concrete action plan may be submitted to the Committee within six months of tabling of this Report.

Pendency of Appeals

Recommendation (Sl. No. 8, Para No. 138 & 140)

19. The Committee observed that the pendency position of appeals both under the Direct Taxes as well as the Indirect Taxes were a serious cause of concern. It was observed that a whopping Rs. 55,138 crores and Rs. 19473 crores, were locked up in disputes at various levels under the Direct Taxes and Indirect Taxes respectively. Of this, the locked up revenue with the Tribunals concerning Direct and Indirect Taxes, accounted for more than half of the total revenue locked up under the Direct and Indirect Taxes. The Committee desired to be furnished with detailed information on the pendency position of appeals, both under Direct and Indirect Taxes *inter alia* indicating the length of pendency of the cases and the amounts involved. The Committee noted that one of the main causes for the delay in disposal of cases was because the Income Tax Tribunal gave stay beyond the mandatory 180 days provided for in the Income Tax Act.

20. The Committee desired that a study might be conducted by the Government regarding the large number of cases pending at various stages of appeal, with specific focus on the reasons for the huge pendency with the Tribunals and suitable remedial measures to be taken to reduce them drastically. They further observed that inordinate delay in disposal of cases might indirectly encourage the assesses to go in for appeal even where there is no hope. The Committee wanted the Government to take all these steps in a time bound manner and be intimated about the actions taken in this regard by the Government.

21. The Government in their action taken reply stated as under:

“Central Board of Direct Taxes:

The total revenue locked up in cases before the ITAT as on 31st March 2004 was Rs. 2784411 (lacs). The detail of agewise pendency of appeals filed by the Revenue, before the Income Tax Appellate Tribunal, as on March 2004 is as follows:

Age of appeals	Before ITAT (in No.)
Less than One year	29595
1 to 2 years	12878
2 to 3 years	9487
3 to 4 years	6874
4 to 5 years	11394
Above 5 years	1586
Total	71814

Central Board of Excise and Customs:

As regards detailed information on the pendency position of Appeals in respect of Indirect Taxes, a detailed analysis of the cases pending at various appellate fora and the amount involved therein as on 31.12.2004 and as on 31.3.2005 as per the Table 1. The study of the comparative statements highlights the following points:

- (1) In respect of Supreme Court cases, there is a marginal increase in number of cases and the amount involved has also decreased by 3.01% as compared to the position on 31.12.2004.
- (2) In respect of High Court cases, there is an increase in number of cases by 2.7% but a marginal decrease in amount involved compared with the figures on 31.12.2004.
- (3) The number of cases in the CESTAT has increased by 2.77% as on 31.3.2005 as compared with the position on 31.12.2004. There is a decrease in the amount involved by 2.48%.
- (4) The earlier trend of decrease in the number of cases pending with the Commissioners (Appeals) in continuing. In fact, pendency from 10739 cases as on 31.12.2004 has come down to 9140 cases as on 31.03.2005. Similarly, the rvenue involved in such cases has also reduced from Rs. 1421 crores to Rs. 1197 crores. Thus there is a decrease in number of cases by 14.88% and the amount involved by 15.76%.
- (5) A study of the number of appeals (on percentage basis) filed by the Department and by the parties in the various appellate fora, as on 31.3.2005, indicates the following trend:

Sl.No.	Appellate Forum	Total No. of Cases as on 31.3.2005	Percentage of Cases Filed by the Department	Percentage of Appeals Filed by the Parties
1.	Supreme Court	2038	65	35
2.	High Court	8793	31	69
3.	CESTAT	23396	43	57
4.	Commissioner (A)	9140	19	81

From the above, it may be concluded that the percentage of appeals filed by the parties before High Courts, CESTAT and commissioner (Appeals) is very high in comparison to the appeals filed by the Department before these fora. The high percentages of parties' appeals indicate that the Orders-in Original were in favour of the Department or the Department has won these cases in the concerned lower appellate fora. However, the percentage of departmental appeals in the Supreme Court continues to be on higher side.

- (6) The number of appeals filed by the Department before the Supreme Court during the quarter ending March, 2005 has come down when compared with the appeals filed by the parties during the same period as per the Table 2.

As regards the length of pendency of cases, information is not available and is being collected from the field formations."

TABLE 1
COMPARATIVE STATEMENT IN RESPECT
OF COURT CASES

Sl.No.	Appellate Forum	Position as on 31.12.2004			Position as on 31.03.2005		
		Total No. of Appeals	Total Amount involved (Rs. in crores)	Total No. of Appeals	Percentage increase/decrease in No. from 31.12.2004	Total Amount involved (Rs. in crores)	Percentage increase/decrease in amount from 31.12.2004
1.	Supreme Court	2031	3453	2038	(+) 0.34%	3349	(-) 3.01%
2.	High Court	8562	3527	8793	(+) 2.70%	3499	(-) 0.79%
3.	CESTAT	22765	11072	23396	(+) 2.77%	10797	(-) 2.48%
4.	Commissioner (Appeals)	10739	1421	9140	(-) 14.88%	1197	(-) 15.76%

TABLE 2

COMPARATIVE STATEMENT ABOUT APPEALS FILED BY THE
DEPARTMENT/PARTIES (FOR QUARTER ENDING DECEMBER
2004/QUARTER ENDING MARCH 2005)

Sl.No.	Appellate Forum	No. of Appeals filed by Department			No. of Appeals filed by Parties		
		During Quarter ending Dec. 2004	During Quarter ending March 2005	Percentage Increase/decrease in No. from 31.12.2004	During Quarter ending Dec. 2004	During Quarter ending March 2005	Percentage Increase/decrease in No. from 31.12.2004
1.	Supreme Court	125	92	(-) 26.4%	53	106	(+) 100%
2.	High Court	259	433	(+) 67.18%	524	591	(+) 12.78%
3.	CESTAT	1130	1097	(-) 2.92%	1931	2083	(+) 7.87%
4.	Commissioner (Appeals)	490	546	(+) 11.42%	3642	3867	(+) 6.18%

22. The Government in their action taken reply also stated as under:

“Central Board of Direct Taxes:

The number of cases pending at various stages with the appellate authorities as on 31st March 2004 is as follows:

Authority	No. of cases
Income Tax Appellate Tribunal*	71,814
High Court	29,334
Supreme Court (*of Deptt. only)	4,443

It can thus be appreciated that substantial number of appeals is pending with Income Tax Appellate Tribunal. The functioning of the Income Tax Appellate Tribunal is under Ministry of Law and hence no further comments/study can be tendered/conducted on the functioning and resultant pendency of the cases resting as on date with the ITAT.

Central Board of Excise and Customs:

A Committee has been constituted to conduct the study regarding pendency of cases at various stages of appeals, with specific focus on reasons for huge pendency before various Benches of CESTAT, and to suggest measures for reducing the pendency”.

23. Concerned over the huge number of cases of appeals pending at various appellate fora, particularly at the level of Appellate Tribunals and exorbitantly high amount of revenue locked up in such cases, the Committee desired to be furnished with related details *inter alia* covering the pendency position of the cases and the amount involved. The Government have, in their reply furnished data on the pendency position of cases in respect of both Central Board of Direct Taxes (CBDT) and Central Board of Customs and Excise (CBEC). The Committee convey their deep concern on the enormity of the pendency of cases, particularly in regard to appeals pending with the Income Tax Appellate Tribunal (ITAT).

24. The Central Board of Excise and Customs (CBEC) have, in their reply, stated that "the percentage of appeals filed by the parties (*i.e.*, assessee before High Courts, CESTAT and Commissioner (Appeals) is very high in comparison to appeals filed by the Department before these fora". However, it is seen from quarterly comparison of appeals filed by the department as well as the assessee that the percentage increase of cases filed by the department before High Courts during the quarter ending March, 2005 has increased enormously. This being a cause for serious concern, they desire that the Committee, which has been constituted by CBEC to conduct a study regarding pendency of cases at various stages of appeals should be specifically mandated to undertake a detailed analysis of the reasons for the persistence of such cases. They also desire that the Central Board of Direct Taxes (CBDT) too should consider constituting such a Committee, to study *inter-alia*, the reasons for pendency before the Income Tax Appellate Tribunals (ITATs) and to suggest remedial measures to bring down the pendency of cases.

25. In addition, in view of the large quantum of cases pending before the Tribunals, the Committee desire that creation of *ad-hoc* Benches to clear the backlog may also be considered.

CHAPTER II

RECOMMENDATIONS/OBSERVATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT

Recommendation (Sl. No. 1, Para No. 7)

The Committee note with serious concern that within a period of one year, the allocations of funds have been revised on three occasions for the “three years plan for implementation of the Comprehensive Computerization Programme (perspective plan)”. They observe that this has happened because of reasons such as belated approval of the project by the Cabinet, delay in formation of the Empowered Committee to oversee the implementation of the computerization programme and further delay in finalization of an agency for implementation of perspective plan.

Reply of the Government

The Department appreciates the concern raised by the Committee, and will make all efforts to ensure that such situation does not occur in future.

[F.No. H-11013/6/2005-Parl. (Rev)]

Recommendation (Sl. No. 1, Para No. 8)

The Committee have, on earlier occasions too, advised the Government to obtain necessary approval and keep everything in order before going in for demand for grants. The Committee are of the opinion that this would avoid delays in implementation of the project and ensure that funds are not blocked unnecessarily.

Reply of the Government

The advice of the Committee is noted for the future and is being acted upon.

[F.No. H-11013/6/2005-Parl. (Rev)]

Recommendation (Sl. No. 3, Para No. 30)

The Committee notice that though it is a positive direction that the revenue collections from the direct taxes have taken in the year

2003-04 the actual collections of the Personal Income Tax has been lower as compared to the Budget Estimates. In so far as revenue collections from the Indirect Taxes are concerned, they observe that the actual collections continue to be negative. The Committee are of the opinion that apart from some uncontrollable factors, the tendency of the Government to alter the rate of tax/duty structure intermittently causes unexpected downfalls in revenue collections. The Committee advise the Government to restrain from giving tax breaks too often and restrict them to once in a specific period, say once a year. They further observe that the BE fixed for the tax collections for the year 2005-06 is too ambitious. Though it is indicative of a positive outlook, there are apprehensions about the achievability, particularly after seeing the track record of the Government, who are finding it difficult to match the revenue collections to that of the growth in the GDP. In this regard, the Committee are of the opinion that unrealistic revenue targets should not be made. This apart, the Committee's apprehension is that the tendency to hardpress the assesseees, particularly under indirect taxes, to not to utilize cenvat credit, but to pay the taxes through cash payments, might increase.

Reply of the Government

Central Board of Direct Taxes

Under the direct taxes, tax breaks are given only during the annual Budget through the Finance Act. Only the procedural and administrative difficulties are removed through administrative orders during the course of the year, which have practically no adverse impact on the revenue collections.

The revenue targets of direct taxes for 2005-06 have been fixed on the basis of macro-economic assumptions of economic growth, historical trends of direct tax buoyancy, measures for additional resources mobilization and initiatives for tax-administration reform. The endeavour of the Government has always been to fix realistic revenue targets. Though the revenue target of direct taxes for 2005-06, may appear ambitious, the same are achievable in view of the trends of direct tax collections in the last three years.

Central Board of Excise and Customs

Changes in the duty structure and rates are generally undertaken as part of the Budget, except in exceptional circumstances.

Budget Estimates are made taking into accounts all material factors. The methodology adopted for preparing the Budget Estimate is continuously improved taking into account past experience.

[F.No. H-11013/6/2005-Parl. (Rev)]

Recommendation (Sl.No. 3, Para No. 31)

Repeated failures to achieve the targets of revenue collection are noticed in a number of Chief Commissionerates under the Income Tax Department and in Commissionerates both under the Customs and Central Excise Departments. The Committee desire to know the specific reasons for such repeated failures and the administrative actions taken against the officers concerned. They further want the Government to analyse the reasons for the shortfalls and rectify them so as to reverse the trend in the revenue collections.

Reply of the Government

Central Board of Direct Taxes

Budget Estimates of direct tax collections are fixed on the basis of certain macro-economic assumptions. These very Estimates are allocated amongst the Chief Commissionerates keeping in view their past performance and revenue-potential of the region. Significant deviation from the targets are, therefore, possible when the assumptions of economic growth, market conditions, growth in real estate, growth in manufacturing sector, income-levels, price-levels, interest rates, etc. do not come true to the extent expected. Apart from the macro-economic factors, there are region-specific factors, which adversely affect the revenue-collection of a particular Chief Commissionerate. Certain Chief Commissionerates receive heavy tax contribution from industries of a particular sector. In a year when such sector does not perform well, the tax collection of that Chief Commissionerate remains much below the target.

The Government is taking necessary steps to fix realistic targets for Chief Commissionerates so as to bring about greater accountability of the officers. The targets for 2005-06 are being fixed on the basis of the weighted average growth rate of collections of the Chief Commissionerates in last three years and realistic estimates of the revenue potential of the region. It is expected that substantial shortfall from targets would be avoided by such allocation of targets and it would be possible to enforce greater accountability.

Central Board of Excise and Customs

Actual collection of revenue *vis-a-vis* the estimates/targets of a Commissionerate depends upon various factors both internal and external. Revenue collection is a function of industrial growth, volume of imports, inflation rate, fluctuations in the prices of commodities and exchange rate. The estimates are based on certain assumptions, which may not turn out to be correct. Collection of revenue is monitored on a regular basis and reasons are analysed with inputs from field formations. Corrective measures are taken from time to time to maximize revenue collections.

Steps Taken to Augment the Revenue Collection

A number of steps have been taken and are being continuously taken to augment tax collection and enhance the revenue buoyancy. These include rationalization of tariff structure, review and withdrawal of tax exemptions to the extent possible, plugging revenue leakage by 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. Besides these are budgetary measures, the other measures being taken are as below:

A. Action Points (Customs):

- (i) Expediting clearance of imported goods which have already been assessed, but not cleared.
- (ii) Expeditious adjudication of unconfirmed demands.
- (iii) Recovery of arrears of revenue free from any restraint. In cases involving significant revenue where recovery has been stayed, action is taken for vacation of the stay orders and for early hearing of such cases.
- (iv) Finalisation of provisional assessments.
- (v) Verification of compliance with end-use conditions wherever end-use based exemptions have been claimed, and enforcement of bonds/bank guarantees where compliance has not been reported with time-limit prescribed.
- (vi) Monitoring of fulfilment of export obligations under the export promotion schemes. Enforcement of bank guarantees or other security wherever the obligations have not been complied with.

- (vii) Faster completion of pending investigations for issue of show cause notices.
- (viii) Special watch for abnormal variations in units values, with a view to check under valuation of imported goods and over valuation of exported goods under export promotion schemes.
- (ix) Follow-up action on audit paras involving significant amounts of revenue.
- (x) Action to be taken for recovery in cases where orders have already been issued by the Settlement Commission.

B. Action Points (Excise)

- (i) Regular monitoring of revenue trends from the level of range offices in the field up to the Chief Commissioner/Board's office.
- (ii) Close watch on production and clearance trends of top 20 revenue-yielding commodities.
- (iii) Close monitoring of clearances of lower rated or exempt items as a proportion to total value of clearances.
- (iv) Monitoring of default in monthly payment of duty.
- (v) A broad correlation between receipt and utilization of principal raw materials and production to guard against misuse of cenvat facility as also suppression of production and clearances.
- (vi) Regular review of cenvat credit availment and utilization trends and follow up action in case of any disproportionate cenvat availment.
- (vii) Ensuring that there is no mis-declaration or misuse regarding availment of conditional exemptions.
- (viii) A watch on generation of by products and wastes/scrap/rejects to ensure that no dutiable items escape the payment of duty.
- (ix) Systematic working of anti-evasion units with better cultivation of informers, collection of intelligence and proper targeting of delinquent units including 100% EOUs etc.

- (x) Identification of commodities and assesseees with reference to different *modus operandi* like suppression of production, clandestine removals, misuse of cenvat credit and mis-declaration of assessable values for focused enforcement.
- (xi) The effective implementation of the current internal audit scheme with constant improvement in the quality of audit.
- (xii) Ranges, Divisions, Anti-Evasion parties and internal audit parties to work in harmony for achieving the common goal of combating evasion and positive guidance to all bonafide assesseees.
- (xiii) Senior officers to frequently interact with important assesseees and trade associations so that genuine taxpayers may be helped and tax compliance enhanced.
- (xiv) Through frequent inspections or visits to the lower formations, the senior officers are required to regularly assess the performance and get the deficiencies removed. Chief Commissioners to also monitor such visits and the results achieved.
- (xv) Expeditious finalization of pending appeals with Commissioner (Appeals), Adjudication and provisional assessments.
- (xvi) Priority to be given to cases with higher revenue implications and older cases.
- (xvii) Effective handling of appeals before courts and Tribunal as also applications before the Settlement Commission.
- (xviii) Recovery of arrears of revenue free from any restraint. In cases involving significant revenue where recovery has been stayed, action is taken for vacation of the stay orders and for early hearing of such cases.
- (xix) Risk based scrutiny of monthly/quarterly returns by range officers. Addl/Jt. Commissioners to scrutinize the returns of the assesseees paying duty above Rs. 5 crore per annum every 6 months. Similar scrutiny for units paying duty between Rs. 1 crore and Rs. 5 crore to be done by Dy./Asstt. Commissioners.

[F.No. H-11013/6/2005-Parl. (Rev)]

Recommendation (Sl. No. 5, Para No. 55)

The Committee understand that the Settlement Commission have been created to avoid complex and lengthy process of litigation and

the cost involved in pursuing the cases, both for the assessee as well as the Government. The extent of belief of the assessee to approach the system with a positive attitude is dependent on the extent to which these commissions are able to function efficiently and effectively. It is observed that presently there are vacancies in the Income Tax Settlement Commission, which have not been filled for years. This has happened because of the absence of clear-cut policy as to how these posts are to be filled in, and lack of serious efforts by various Government agencies involved. Hence the Committee urge the Government to come out with clear-cut policy/instructions in so far as the filling up of the vacancies in the Settlement Tribunals is concerned.

Reply of the Government

The Central Board of Direct Taxes was requested to make serious efforts to fill up vacant posts and come out with clear-cut instructions so far as filling up of vacancies in the Settlement Commission is concerned. The CBDT had informed that there is separate policy for filling up of the post in the various benches of the Settlement Commission. The vacancies are filled up from the existing staff allotted to the Chief Commissioners of Income Tax. Subsequently, the CBDT had issued orders posting seven CITs in various benches of the Income Tax Settlement Commission as Departmental representatives *vide* their order dated 31st May, 2005. As regards the posting of Additional CITs and JCITs to ITSC Benches, the CBDT has directed the concerned Chief Commissioners of Income Tax to fill up the existing vacancies from amongst the staff under their control.

[F.No. H-11013/6/2005-Parl. (Rev)]

Recommendation (Sl.No. 5, Para No. 56)

The Committee note with serious concern that there has been a tendency of non-cooperation by the Commissioners of Income Tax in furnishing the necessary reports under certain provisions of the Income Tax Settlement Commission rules. This denotes the attitude of the field officers in supporting the functioning of the Commission. The Committee want the Government to take serious view of such defaults and initiate suitable action in this regard.

Reply of the Government

The Central Board of Direct Taxes have issued letters to the concerned Chief Commissioners of Income Tax to take suitable action

to ensure that there is no undue delay in submission of reports by the concerned Commissioner of Income Tax under their charges under Rules 6 and Rule 9 of the ITSC Rules.

[F.No. H-11013/6/2005-Parl. (Rev)]

Recommendation (Sl. No. 5, Para No. 57)

The Committee note that the non-finalisation of the recruitment rules in time, non-revision of the pay scales of certain officers and lack of certain basic monetary benefits to the officials posted in the Customs and Central Excise Settlement Commission, are taking their toll, which might affect the very efficiency of the functioning of the Commission. They observe that the performance of the Commissions, particularly that of the Income Tax Settlement Commission, indicate marked decline in disposal of the cases, which is not at all to the Committee's expectations. They are of the opinion that the shortcomings observed above are the main reasons for the dismal shortfalls in the performance of the Settlement Commissions. Though the Government have initiated some remedial measures, the Committee advise the Government to pursue the matters in a time bound frame and solve them expeditiously. They are of the opinion that the Government have not been serious enough to ensure the smooth functioning of both the Commissions. Hence, the Committee urge the Government to undertake a thorough review of the functioning of the Settlement Commissions and remove all the obstacles in the functioning on a war footing. The Committee desire that the Government shall submit a status report in this regard within three months.

Reply of the Government

The draft Recruitment Rules for Group 'A' & 'B' in the Customs and Central Excise Settlement Commission have been prepared in consultation with Department of Personnel and Training and have been referred to Union Public Service Commission (UPSC) for their approval. These will be notified after getting the approval of UPSC and the Minister of State for Revenue in the Ministry of Finance.

The Recruitment Rules for Group 'C' & 'D' have been approved by the Minister of State for Revenue in the Ministry of Finance and have been referred to the Ministry of Law for vetting. These rules will also be notified after the approval by the Ministry of Law.

The non-revision of pay scales of certain officers in the Commission refers to the revision of pay scales of Senior Investigating Officers and Junior Investigating Officers in the Customs and Central Excise

Settlement Commission, who are drawn from the cadre of Superintendents and Inspectors of the Customs and Central Excise Department. Whereas the pay scales of Superintendents and Inspector have been revised to Rs.7500-12000/-and Rs. 6500-10500/-respectively in the Customs and Central Excise Department, the pay scales of Senior Investigating Officers and Junior Investigating Officers, who are drawn from the rank of Superintendents and Inspectors, continue to remain as Rs. 6500-10500/and Rs. 5500-9000/-respectively The Department of Revenue have recommended the revision of pay scales and referred it to Department of Expenditure through IFU. This matter is now under consideration of the Department of Expenditure and a decision is awaited.

The Committee has also referred to lack of certain monetary benefits to the officials of Commission. This is regarding the difficulty mentioned by the Commission that the officers/staff working on deputation are drawing deputation allowance, whereas the officers/staff taken on loan basis from the Customs and Central Excise Department do not have any monetary benefits. A proposal in this regard has been obtained from the Customs and Central Excise Settlement Commission. However, since the proposal is incomplete, detailed justification for deployment of officers on loan basis have been called for. On receipt of the said proposal, further action will be taken by the Ministry.

The CBDT have also posted seven officers of the level of CIT to various benches of the Income Tax Settlement Commission vide its order dated 31.05.2005.

[F.No. H-11013/6/2005-Parl. (Rev)]

Recommendation (Sl.No. 6, Para No. 103)

The Committee understand that computerisation of all the Government formations involved in the policy making on taxation and its implementation is expected to bring higher efficiency in the functioning of the tax machinery and result in faster assessments and collection of taxes, less interface between the tax officials and the public and more transparency in tax administration. Further it also facilitates widening and deepening of tax base and discourages tax evasion. The Committee express their disappointment that in spite of India's acknowledged prowess in IT planning and Software, IT application in both the CBDT and the CBEC has lagged behind and still suffers from lack of clarity and coordination.

Reply of the Government

Central Board of Direct Taxes

The current phase of computerisation programme in Income Tax Department is as envisaged in Vision Document 2005 accepted by the Government in the year 2000. It has been further supplemented by the decisions arising from acceptance of the Kelkar Committee's report. Therefore, there is requisite clarity behind the objectives set out for the current phase of the computerisation programme.

Central Board of Excise and Customs

Achievements till date

Customs

The first attempt at computerization of the Customs operations was made in 1986, when the processing of documents at six major Customs Houses was automated. However automation was a process parallel to the manual assessment of import and export documents and while a database was created, it did not really help in expediting Customs clearances.

The concept of EDI in Customs operations was visualised by the department as early as 1993. Accordingly a Pilot Project was launched at Delhi Air Cargo with EDI as its basis. The automation of import operations started in May, 1995, at Delhi. This system featured online assessment, duty payment and clearance procedures as well as EDI connectivity with clearing agents.

As application software for internal automation, ICES captures the entire workflow and the activities at various stages of processing of declarations of goods for imports and exports. Some of the salient features of the existing Customs EDI system are as follows:

- (i) Electronic filling of Goods declarations.
- (ii) Electronic processing of declaration on a first come first served basis.
- (iii) Electronic messaging with the banks for the collection of duties and disbursal of duty drawback.
- (iv) Electronic messaging with custodians and other agencies concerned with cargo clearance.
- (v) Single point of interface of trade with Customs.

Presently the Customs operations have been automated at 33 major Customs locations covering sea ports, airports, land customs stations and inland container depots. In the financial year 2004-05, ICES handled about 4.5 million declarations of import and export in the automated custom locations.

The Electronic Data Interchange is taking place between Customs and the community partners. The customs clearance is a complex process involving regular interaction with a large number of agencies. Information is required to be exchanged on a real time basis. The ICES connects Customs with the Customs House Agents, Banks, Custodians like the Airports Authority of India, Port Trusts, Container Corporation of India, Reserve Bank of India, Director General of Foreign Trade, Director General of Commercial Intelligence and Statistics, CBEC's internal offices like the Directorate of Valuation, and DGRI.

The Indian Customs E-commerce Gateway (ICEGATE)

E-filing has been facilitated through the customs e-commerce gateway (ICEGATE). Presently, about 4000 CHAs, importers and exporters, airlines and console agents have been registered as users on ICEGATE. Apart from import and export declarations, manifests (cargo related information), transshipment requests by carriers and Transfer Release Advice by custom Houses are also transmitted electronically through the ICEGATE. About 9000 import and export declarations per day were filed in March-April 2005 through this facility. In the financial year 2004-05, the total number of transactions through ICEGATE was about 24 lakh and the total submissions of Bills of Entry and Shipping bills were about 21 lakh.

In overall terms, over 90% of the import and export declarations were filed electronically on the Customs EDI system (including ICEGATE) in the year 2004-05 from the automated customs locations.

The Customs EDI system provides a variety of access channels for information dissemination to the trading community through:

- (a) Enquiry Counters
- (b) Touch Screen Kiosks
- (c) SMS on GSM mobile phones
- (d) Help mails
- (e) Web based Systems
- (f) Documents tracking facility on ICEGATE
- (g) Helpdesk (ICEGATE)

CBEC's Certifying Authority for issue of Digital Certificates

As part of the gateway project and to ensure e-filing in a secure manner, CBEC has set up a Certifying Authority (CA) for issue for digital signature certificates.

Computerization in Central Excise

In 1991, a Software called SERMON (System for Monitoring Excise Revenue) was introduced in most Central Excise Commissionerates. It is intended to build up database of production, clearance and revenue and to ensure uniformity of assessment, classification and valuation. It also provides the facility of monitoring revenue for taking policy decisions—detailed analysis like commodity-wise, rate-wise, notification-wise etc. is also possible. Focus has been on achieving 100% capture of assessee profile and monthly returns.

Emphasis is now on the utilization of data for selective audit, based on risk analysis. Assessee profile, monthly returns and audit data base are the basic data elements needed for developing Risk-Assessment Module for selective audit.

Provision of registration of central excise assessees through a central server has also been made recently. Electronic filing of Central Excise and Service Tax returns has been made operational.

The launch of SERMON online applications from a central server, accessed through the Internet, was achieved in 2001. The online registration of service Tax assessee was launched in February 2002, and the online registration of Central excise assessee commenced from October 2002.

In 2003, the e-filing of Service Tax returns commenced. In the same year, it also launched an Electronic Departmental Communication System. E-filing of Central Excise returns by the assesseees was enabled from 1.6.2004. An application to capture the returns data pertaining to major Central Excise assesseees directly into the central server was launched on 3.1.2005. A pilot project for online capture and transmission of duty payment data was launched at Chennai on 17.1.2005.

SAPS (System for Allotment of PAN based Service taxpayer code software) is a web based software developed primarily with the intention of building up a data base of profiles of service tax assesseees right at the time of registration. The SAPS software was launched in February 2002. Board had issued circular 140/03/2002-ST dated

21.2.2002 instructing that allotment of service taxpayers code should be made by using SAPS software.

CRRS (Cyber Revenue Realisation Summary) was initially launched in April, 2001 to capture the central excise revenue details from each Central Excise Commissionerate, for the basic purpose of checking the completeness of RT-12 data sent by each Commissionerate. This system replaced the Monthly Telegraphic Summary of the CBEC. CRRS was initially launched in April, 2001 to capture the central excise revenue details from each Central Excise Commissionerate, for the basic purpose of checking the completeness of RT-12 data sent by each Commissionerate. It was further modified to capture the details of revenue collected from Service Tax also. In April, 2002, it was further enhanced to include category-wise revenue from Service Tax. Now, the system has been further enhanced to capture Customs revenue collected by Customs formations throughout the country. There are separate modules for Central Excise, Service Tax and Customs formations. This data resides on the central server and can be accessed by the Board for policy requirements.

SACER (System for Allotment of Central Excise Registration Number) is a web based software which has been developed primarily with the intention of building up a data base of profiles of Assesseees in the process of registration itself and to ensure easy access to information and avoid duplication in the allotment of Central Excise Registration Number. SACER has been commissioned from 1.10.2002.

PAMS (Provisional Assessment Monitoring System) is a software created for monitoring the pendency of provisional assessments. In order to capture crucial information/sanction orders on the system, it was decided to make it necessary for the AC/DC permitting the provisional assessment to do so using the PAMS module, thereby capturing crucial data at the initial stage itself. This would then help monitor the dates for getting the approval of the Commissioner and the CC, as the case may be, to continue with the provisional assessment after the six months period. It would also help monitor the expiry of bank guarantee etc. It was launched in June, 2003.

ER-1 data is captured in stand-alone systems at each Division using SERMON 5i. The data is consolidated at each Commissionerate Headquarters and then sent to the Directorate of Systems, Chennai from where it is made available to users like the Board, Tax Research Unit, Chief Commissioner Unit, etc. The data is placed on a central server to make it available to authorized officer anywhere any time.

STREMS (Service Tax Revenue Monitoring System)

ST-3 data is captured on a stand alone system at each Division using STREMS. The data is consolidated at each Commissionerate Headquarters and then sent to the Directorate of Systems, Chennai, from where it is made available to users like the Board, TRU, CCU, etc. The data is placed on a central server to make it available to authorised officers anywhere anytime. Divisions are at present not capturing this data, complaining of a shortage of data-entry staff. They have informed that consequent to the cadre reorganization in the department, the cadre of DEOs has been abolished leading to a backlog of data entry. It is hoped that with the introduction of e-filing of returns, this issue will find a solution.

EDECS (Electronic Departmental Communication System)

Computerisation and automation of procedures has been gathering rapid pace in the department. The Directorate of Systems has often faced difficulty in communicating with the large number of field formations. This has led to the development of a new application which combines the features of an ordinary mail with that of a formatted document. This new communication system is called E-DECS (Electronic Departmental Communication System). EDECS has been launched on 31st March, 2003.

A website for facilitating assessee's transactions with the department (exciseandservicetax.nic.in) has been launched in July, 2004 with the following facilities:

- (i) E-filing of Central Excise and Service Tax returns
- (ii) Web-enabled Central Excise tariff query system
- (iii) Assessee helpline

Benefits of automation

1. Introduction of automation has considerably streamlined and reengineered the clearance processes. In imports, the number of procedures has been reduced from 18 to 6 and in exports from 15 to 5. In exports, appraisal has been dispensed with except in specific cases *viz.* requirement of export promotion schemes, or where the FOB value of export is more than Rs. 10 lakhs or the drawback amount beyond Rs. one lakh.

The Automation has brought down the processing stages substantially by introducing electronic workflows. With the risk management based clearances, the module being under development and likely to be rolled out in all EDI locations in about 3 months, Customs is now moving towards a systems governed clearance mechanism wherein the majority of cases, self-assessed consignments will be cleared without examination.

2. Electronic credit of Drawback in the bank has been enabled. The exporter is not required to file a separate claim for drawback (as was done in the manual system) and the shipping bill itself is treated as a claim for drawback. After the export manifest is filed by the carrier, the system calculates the drawback due and payment is credited into the exporter's account.

3. Dissemination of information to the trade through a variety of means *viz.* through Document Tracking System on ICEGATE, Touch Screen Kiosks, SMS, display of Document status on TV monitors and on local websites leading to greater transparency in the monitoring of shipments by trade.

4. Accountability—through time stamping of all activities. Delays can now be pinpointed and suitable corrective action taken.

5. Authenticated and validated transaction—leading to accurate reporting: With the use of EDI and Internet based filing system data is received directly from the trade without any manual intervention.

6. Reduction in transaction costs in exports for the trade—this has been documented in studies carried out by agencies such as the EXIM Bank.

In addition, with the implementation of ICEGATE, the following benefits have accrued to the clients:

- (a) continued use of in-house application without the need to re-enter data since clients have to only add a plug-in to generate messages in the prescribed standards. They also get a choice of transmission protocols & messaging standards.
- (b) Transparency—through Document Tracking, status Query and Help Desks at ICEGATE.
- (c) Reduced cost of documentation/filing/compliance.
- (d) Speedier clearance of Cargo.

Future plans

- (i) Introduction of Self-assessment based on Risk Management System and Post Audit in customs clearance to promote faster clearance of cargo, to facilitate low risk importers/exporters and to provide effective enforcement in high-risk cases. The systems is under pilot.
- (ii) Expansion of Indian Customs EDI System to 3 more locations increasing the number of automated locations from 32 to 35. This will cover about 90% of the International Trade transactions of the country.
- (iii) Under the Consolidation Project, recently approved by the CCEA, an additional 35 locations are proposed to be brought under automation, thus bringing a total of 70 Customs stations into the ambit of ICES.
- (iv) Implementation of a computerised system for excise and service tax documentation that will enable on-line filing of returns and all other claims/permission requests. This project has already commenced and is expected to be implemented in a time frame of one year. A tight integration with the Customs system is also envisaged.
- (v) To introduce Internet based payment of customs duties as part of the trade facilitation and for promoting faster clearance of cargo. A pilot implementation has been introduced at Air Cargo Bangalore. Discussions have been held with the Principal Controller of Accounts regarding reconciliation of revenue collected in an EFT environment. Full scale implementation of electronic payment of duties involving multiple banks can be undertaken subject to approvals on payment, accountal and reconciliation procedures, from Controller General of Accounts and the Reserve Bank of India.
- (vi) Tracking of arrears of revenue through automated mechanism to enable recovery of arrears and to contribute to revenue generation. The software has been implemented and Custom Houses have been directed to populate the database with the arrears information for raising alerts, whenever defaulters transact on the system.

- (vii) A system to automatically reconcile Central Excise revenue receipts paid into the banks with information in the Central Excise returns submitted to the department is under pilot implementation at Chennai.
- (viii) Implementation of Digital Signature Certificates in customs clearance:—For the financial year 2005-06, the aim is to issue about 5000 certificates. The constraint in this case is that of manpower. A staff requirement of 36 has been projected for the work (currently the project is being run by 4 people). The number of certificates issued may not be achieved in the absence of the required personnel.
- (ix) Delivery of objectives listed under the Umbrella Project called “Consolidation of application and infrastructure of CBEC”:—It is expected to be implemented in a time frame of 18 months from the date of funds availability. The deliverables under this Umbrella Project are as under:—

Consolidation of the existing and proposed IT infrastructure

Comprehensive networking linking all offices of CBEC—

1. Development of Web based application for Customs, Central Excise and Service Tax covering all major activities of CBEC. The work has been awarded to the selected vendor.
2. Setting up of Data Warehouse for meeting information and analytic needs of the CBEC and the Ministry of Finance. A consultant has been appointed to conduct the study.
3. Setting up of intranet service for CBEC and its officers to enable communication and interchange of information.

F.No. H-11013/6/2005-Parl. [Rev.]

Recommendation (Sl. No. 6, Para 104)

The Committee observe that the efforts of the Government towards Computerisation of the entire tax administration machinery seem to be undertaken in a piecemeal and casual manner which causes delays. Further, they observe that there has been no co-ordination between different tax Departments.

Reply of the Government

Central Board of Direct Taxes

The computerisation programme in Income Tax Department has been taken as a comprehensive proposal. Basic elements for coordination with other Taxation Departments have been kept in mind while preparing the computerisation proposal, in particular the planning of a common identifier such as PAN which is also being used by the other Taxation Departments, namely, Central Excise, Customs, Director General of Foreign Trade (DGFT) etc. However, inter-agency access to each other's database was conceived in a very limited manner at that stage.

Central Board of Excise and Customs

CBEC started their automation efforts with the purpose of developing a workflow application for cargo clearance and collection of duty which was their prime responsibility. It developed a system where declarations from the importer and exporter could be electronically received and processed on the screen of the customs officers who took decisions on the system.

However, in the business of cargo clearance many other agencies like Ports, Banks, Airports, DGFT, RBI, Airlines, Shipping lines, Drug Controller, Transporter and the trade community are also involved. Thus a paperless environment was dependent on the automation efforts of all these agencies which were at different levels of development. As such, CBEC had to undertake the automation programme largely in terms of its objectives.

The Tax Policy of the Government is dynamic and changes occur every year in terms of budget pronouncements.

The automation efforts of CBEC are not haphazard. Investments have been committed to projects periodically. These cannot be considered piecemeal as the projects take time to mature both in terms of technology absorption by the users as well as the department's capacity to derive benefits. The recently approved consolidation project assimilates all the previous developments and integrates the diverse applications of the Department into one consolidated application which can provide a comprehensive/composite view of tax administration. The project attempts to take advantage of lower costs of computing power and network bandwidth.

Consolidation of IT infrastructure and applications will derive the benefits from the latest technologies and the readiness of all concerned and participating agencies of the department and the stakeholder community.

Keeping in mind that the automation efforts of CBEC and CBDT entailed a future sharing of data, the Ministry of Finance decided in 1999 to use PAN as a common business identifier. At present PAN is used as an identifier by all wings of CBEC, *i.e.* Customs, Central Excise and Service Tax. However, PAN has not been accepted by the State Governments as a mandatory identifier for VAT related transaction.

CBEC and CBDT have recently been attempting to develop a composite view of their assesseees and this has resulted in the decision of the Ministry of Finance to set up a Large Tax payers Unit, which will comprise CBEC and CBDT officers. Synergy with VAT system of State Governments has also been identified as an objective.

The constitution of Empowered Committee mentioned in response to paras 106 and 107 below would also ensure maintenance of synergy between computerisation projects of CBDT and CBEC.

F.No. H-11013/6/2005-Parl. [Rev.]

Recommendation (Sl. No. 6, Para 105)

The Committee note and appreciate that in so far as computerisation in the Income Tax Department is concerned, the efforts like e-filing of returns, e-payment of tax, faster processing of returns and issue of refunds and consolidation of regional data bases into single national data base are progressing in the right direction, which will enhance the efficiency of the department. They observe that on some of these decisions a time frame for their implementation have been mentioned. They desire that the Government should make all out efforts in completing the projects in time.

Reply of the Government

All efforts are being made to adhere to the time line. An Empowered Committee has been reconstituted with representatives from all concerned Departments to speed up the decision making process.

F.No. H-11013/6/2005-Parl. [Rev.]

Recommendation (Sl. No. 6, Para 106)

The Committee observe that delays in according sanctions to the projects, their implementation and delays in completion of tenders have resulted in either not spending the money allotted or reducing the RE drastically.

Reply of the Government

Central Board of Direct Taxes

The delays in implementation of the sanctioned projects were primarily on account of time taken in complying with the prescribed procedures relating to issue of tenders, evaluation of bids and award of contract etc.

Central Board of Excise and Customs

An Empowered Committee has been constituted, vide order dated 9th May, 2005, in order to expedite and synergize implementation of computerization projects of CBEC and CBDT. This Committee has members from the various departments involved in granting approval as well as experts from the field of Information Technology. The Committee has also the provision for a nominee of the Empowered Committee of State Finance Ministers. The terms of reference of the Empowered Committee, *inter-alia*, includes:

1. Appointment of technical/project consultants for expeditious and effective implementation of computerization plan.
2. Approval of detailed implementation strategy.
3. Approval to request for proposals and tender documents in connection with the above projects.
4. Approval of technical proposals relating to procurement of hardware, network design, software modification, system integration etc. for implementation of computerisation plans.
5. Approval of evaluation of technical bids and shortlisting of bidders related to the above.
6. Approval of evaluation of commercial bids relating to the above and award of the final contract.

7. Formulation of Information Technology strategy that will achieve synergy between CBDT and CBEC in the first instance and to work toward synergy with State VAT systems;
8. Monitor all aspects related to change management in connection with project implementation and roll out computerisation projects;
9. Ensuring readiness of the department on the one hand and trade and industry on the other to implement electronic interfaces between Government and Industry.

It is expected that the Empowered Committee would help in ensuring synergy between the projects of CBDT and CBEC and also help in timely and effective implementation of projects.

F.No. H-11013/6/2005-Parl. [Rev.]

Recommendation (Sl. No. 6, Para 107)

The Committee desire that a dedicated machinery be created for planning, co-ordinating and helping a timely implementation of various computerisation projects. It shall obtain all the necessary sanctions well in time before coming out with the relevant demands. It shall also ensure timely and proper execution of tenders and implementation of the projects in time.

Reply of the Government

Central Board of Direct Taxes

The Department of Revenue has reconstituted the Empowered Committee on Computerisation. This is chaired by Advisor to Finance Minister and includes Secretary (Revenue) and Secretary (Expenditure). Its mandate includes implementation of computerisation projects in both Income Tax and Central Excise & Customs Departments. The Committee also has representatives from the Empowered Committee on VAT. Its mandate includes coordinated implementation of computerisation projects across different taxation departments.

Central Board of Excise and Customs

The reply to this Paragraph is same as given to the preceding paragraph 106.

F.No. H-11013/6/2005-Parl. [Rev.]

Recommendation (Sl. No. 6, Para 108)

The Committee observe that insufficiency of the manpower in the certifying authority under indirect taxes has been indicated to be a matter of concern. They want the Government to look into the matter expeditiously.

Reply of the Government

A detailed proposal for manpower is being dealt in CBEC in F.No. A-11013/55/2004-Ad. IV. The deployment of manpower is awaited which has caused delay in issuing the digital signatures.

F.No. H-11013/6/2005-Parl. [Rev.]

Recommendation (Sl. No. 6, Para 109)

The Committee had, in one of their earlier reports, recommended that Computerisation was to be done in such a manner that all the departments involved in tax collections will be able to interchange information between them and further recommended to devise a unique identification number not only for various taxation purposes but also for all the financial transactions in the economy. The Committee, once more, reiterate their recommendations and desire that the Government should view the process of Computerisation in a holistic manner with a centralised supervisor to monitor formulation and execution of various computerisation projects being undertaken at present as well as in the future and bring them under one single umbrella. This should be done within a specified time frame. The Committee would like to be apprised of the decision of the Government and further progress in this regard.

Reply of the Government

Central Board of Direct Taxes

- (i) The recommendation of the Committee to create a unique identifier for exchange of information between various taxation departments was accepted. PAN has been conceived of as the unique taxpayer identifier between various taxation departments. Both Income Tax as well as Customs and Central Excise Departments are using PAN or PAN based identification numbers in their computerisation programme.
- (ii) The reconstituted Empowered Committee has the mandate to look after the computerisation projects in different departments under the Department of Revenue as a coordinated project.

- (iii) The empowered Committee is acting as the centralized supervisor to monitor formulation and execution of various Computerisation projects being undertaken in the Department of Revenue.

Central Board of Excise and Customs

CBEC has been using PAN as a common business identifier in all its operations. State Governments, however, have declined to adopt PAN as a mandatory common identifier in VAT implementation.

F.No. H-11013/6/2005-Parl. [Rev.]

Recommendation (Sl. No. 6, Para No. 110)

They further desire that, keeping in mind the critical importance of Computerisation of all the tax departments, a consolidated demand and expenditure be introduced in the demands for grants for the computerisation efforts. The Committee desire that the Government come out quickly with a "White Paper" on Information Technology in Tax Administration that will provide a comprehensive overview of what is being done and what is proposed to be done to use IT to widen the tax base and increase tax collections, covering CBDT, CBEC and VAT as well. The Committee are of the opinion that with the computerisation of the tax administration, the Government should seriously look into the possibility of maximising the scrutiny of tax returns.

Reply of the Government

The Empowered Committee mentioned in the reply to the observations in para 107 serves to coordinate the computerization programmes in the area of taxation. However, since the implementation of the programmes is done by different agencies for Direct Taxes and Indirect Taxes, it may not be practical to consolidate the demand and expenditure and show under one demand.

A White Paper will be brought out shortly as suggested by the Committee.

F.No. H-11013/6/2005-Parl. [Rev.]

CHAPTER III

RECOMMENDATIONS/OBSERVATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF THE GOVERNMENTS REPLIES

Recommendation (Sl. No. 2, Para Nos. 18 & 19)

The Committee observe that lack of coordination among different agencies involved in ensuring the quality of the scanners required and taking care of the formalities involved in the entire process of procurement and installation of scanners has resulted in obtaining "deficient scanners" and delay in executing civil works for installation of scanners.

The whole affair, the Committee are of the opinion, has been done on a trial and error method which has caused wasteful expenditure. The Committee take serious view of it and require the Government to furnish an explanatory note on the whole affair, detailing the nature of mistakes committed by each authority/person involved and penal action, if any, taken on the erring officials/authority.

Reply of the Government

Co-ordination among Agencies

Different agencies have been involved at different stages of the procurement and installation/commissioning of the container scanners at JNPT, Nhava Sheva, but from the stage of conceptualization of the project to the actual commissioning of the scanners, care has been taken to institute mechanisms that ensure proper co-ordination amongst the different agencies.

At the initial stage the requirements of Customs and other agencies (NCB&IB) that can potentially derive benefit from installation of the container scanners were collected by a single agency, *i.e.* the Directorate of Revenue Intelligence, CBEC, Department of Revenue and communicated to the Department of Atomic Energy. On the basis of the user requirement and the market survey carried out by M/s ECIL (Public Sector Undertaking under the Department of Atomic Energy), a proposal was made to the Department of Revenue. This proposal was communicated to the Department of Revenue by the

Chairman, Atomic Energy Commission and Secretary, Department of Atomic Energy.

At the stage of placing of order upon M/s ECIL for delivery and installation/commissioning of one 9 MeV Relocatable X-Ray System and one Mobile Gamma Ray System, the approval of the Committee on Non-Plan Expenditure and the Finance Minister having been obtained, a **Price Negotiation Committee** was set up under the chairmanship of Member (Customs), CBEC, which comprised of a technical expert (nominee of M/s Bharat Electronic Ltd.), Financial Adviser and DGRI.

Thus, at this stage also care was taken to have the user, the technical expert and the financial expert together look into the price quoted by M/s ECIL and negotiate with them for reduction in the cost and other terms and conditions including the delivery schedule. The Committee held three meetings from 29.7.2003 to 1.8.2003 and subsequent to the negotiations with M/s ECIL, the price was brought down to Rs. 31.27 crores from Rs. 34.08 crores. The Committee also discussed the terms and conditions of the MoU which was signed on 12.8.2003.

The order having been placed upon M/s ECIL, a **Project Implementation Committee** was constituted under the chairmanship of Member (AS), CBEC, so as to ensure close monitoring of the implementation of the project. The other members of the Committee are Chief Commissioner of Customs, Nhava Sheva, DGRI, Financial Adviser and Commissioner [Preventive Operations]. The Project Implementation Committee has kept a close watch over the implementation of the project. So far, 8 meetings of the Committee (as detailed below) have been held and it has been the constant endeavour of the Committee to expedite the project by removing the bottlenecks that have been encountered during the implementation:

- (i) First meeting held on 10th September, 2003 at New Delhi.
- (ii) Second meeting held on 14th November, 2003 at Nhava Sheva.
- (iii) Third meeting held on 28th January, 2004 at New Delhi.
- (iv) Fourth meeting held on 11th March, 2004 at Nhava Sheva.
- (v) Fifth meeting held on 6th April, 2004 at New Delhi.
- (vi) Sixth meeting held on 26th May, 2004 at Nhava Sheva.

- (vii) Seventh meeting held on 21st July, 2004 at Nhava Sheva.
- (viii) Eighth meeting held on 24th September, 2004 at Nhava Sheva.

These meetings were attended by officers of the JNPT Custom House, Financial Adviser (Finance), representatives from M/s ECIL, M/s ECIL-Rapiscan, M/s CWC and other concerned agencies. During these meetings, the day-to-day problems being encountered in the implementation of the project were extensively discussed and necessary directions given to the representatives of M/s ECIL, M/s ECIL-Rapiscan and M/s CWC.

The project has also been monitored by the Chief Commissioner of Customs, Mumbai-II on day-to-day basis. Besides, as directed by CBEC, the Chief Commissioner is sending a fortnightly report so that progress in the matter is readily available.

Thus, there has been continuous and close interaction with other agencies during the implementation of the project.

Commissioning of Relocatable Scanner

So far as the Relocatable X-ray Scanner System is concerned, it would be premature to comment on its performance because the work of installation of the equipment has been only recently completed i.e. 25th March, 2005. Since then, the machine has been on extended trial and so far, such trials are going on satisfactorily. The final Site Acceptance Test has now been conducted in the first week of June, 2005 and the Relocatable X-Ray Scanner is to be handed over to the department shortly. The performance of the Relocatable X-Ray Scanner System and our experience with it would therefore be only available after a couple of months. Delay in executing the civil works undertaken by M/s CWC has taken place but this is not on account of lack of coordination between different agencies involved. The civil work for the installation of the relocatable scanners was started in the month of December, 2003 and work was expected to be completed by June, 2004. However, due to the unexpected delay in completing the work of large number of piles, the date of completion was posted to September, 2004. This schedule could not be adhered to because of the further delay in the piling work. Finally, the civil work could be completed in December, 2004. The reasons for delay in the completion of the civil works are mainly as under:

- (a) Very soft soil at the chosen site of installation necessitating extensive pile work for the foundation.

- (b) Delay in piling work (due to time taken in checking of mix design, recasting of concrete cubes and pre-engagement of consultant).
- (c) Improper levelling of tunnel floor.
- (d) The stringent radiation norms of Atomic Energy Regulatory Board which required a particular type of construction on account of proximity to the office building.
- (e) Inclement weather conditions during monsoons.

Performance of Mobile Scanner

As regards the Mobile Gamma Ray Scanner, it was made operational with effect from 29th March, 2004. Initially there were a number of problems which related to poor quality of image, water seepage, short circuiting of PCBs, failure of hydraulic system, failure of sensors etc. There was also the problem of lack of spares, toolboxes, jack assembly etc. However, these issues were immediately taken up with the vendors and the problems resolved. It is in fact due to the continuous monitoring of the project that the Mobile Gamma Ray Scanner System has largely stabilized and is now reported to be functioning satisfactorily. On an average, 120 containers are being scanned every day.

Gamma Ray Systems are generally used for inspecting empty and light to medium loaded containers. X-ray Systems are most suited for high density cargo scanning. Keeping in view the respective technical strengths of the two systems i.e. Mobile Gamma Ray Scanner System and Relocatable X-ray Scanner System as well as for logistical reasons, a system for optimum utilization of the two container scanners is being evolved. The details are as follows:

The mobile scanner has been installed inside the port area at JNPT, and is being used for scanning low density material requiring lower penetration. Secondly, export containers in this port which are cleared by the ICDs/CFSs located elsewhere largely go directly into the port. Once they enter the port, it may not be advisable to bring them out for scanning purpose. Therefore, the mobile scanner which is already installed in the port premises can scan the export containers as also the low density import cargo. The relocatable scanner which has higher penetration capacity will be used for scanning the heavy import cargo. Both the container scanners will thus complement each other.

The installation of container scanners at JNPT, Nhava Sheva, is a new initiative of the country. This being a new and sophisticated technology, the project has been implemented as a pilot project. Though a number of problems have been encountered, the same have been addressed and in doing so, the Project Implementation Committee has played a key role in coordinating the work of different agencies. Now that the Relocatable X-Ray Scanner Systems is to be shortly commissioned, optimum utilization of both these scanners with their respective technical strengths shall become possible. It cannot therefore be said that the procurement has been done on trial and error basis nor has there been any wasteful expenditure.

F.No. H-11013/6/2005-Parl. [Rev.]

Recommendation (Sl. No. 9, Para No. 150)

The Committee observed that the Central Economic Intelligence Bureau was created to co-ordinate and strengthen the intelligence activities and enforcement action by various agencies concerned with investigation into economic offences and enforcement of economic laws.

Reply of the Government

The Central Economic Intelligence Bureau has been fulfilling the stated objective at regional level through the forum of 18 Regional Economic Intelligence Committees (REICs) located at Ahmedabad, Bangalore, Bhopal, Bhubaneswar, Chandigarh, Chennai, Delhi, Hyderabad, Jaipur, Kochi, Kolkata, Lucknow, Madurai, Mumbai, Patna, Pune, Shillong and Vadodara. Representatives of various intelligence/ investigating agencies i.e. Customs, Central Excise, Income Tax, CBI, Enforcement Directorate, RBI, Sales Tax, ROC, EOW, State Police are members of REICs.

At the national level, the CEIB regularly interacts with the intelligence and enforcement agencies, both within and outside the Department of Revenue, with a view to provide effective coordination in the area of economic offences.

F.No. H-11013/6/2005-Parl. [Rev.]

Recommendation (Sl. No. 9, Para No. 151)

The Financial Intelligence Unit-India (FIU-IND) has recently been set up with a view to coordinate and strengthen collection and sharing of financial intelligence through an effective national, regional and

global network to combat money laundering and related crimes. It will be a multi-disciplinary unit with experts from Income Tax, Customs and Central Excise, Law, Commercial Banks, Capital Market, Information Technology etc. for establishing links between suspicious or unusual financial transactions and underlying criminal activities.

Reply of the Government

Government has appointed Director (FIU-IND) in the rank and status of Joint Secretary and sanctioned 42 posts, to be filled in by officers from different agencies/departments. Action has been initiated to fill up the sanctioned posts and instal necessary infrastructure at the identified site, Samrat Hotel to make FIU-IND fully operational. The process is expected to be completed by 15th August, 2005.

Further, Rules under the Prevention of Money Laundering (Amendment) Act, 2005 have been finalized and notified in the Gazette of India. Relevant notifications to bring the Act into force have also been issued along with the aforesaid Rules.

F.No. H-11013/6/2005-Parl. [Rev.]

Recommendation (Sl. No. 9, Para No. 152)

The Committee also emphasize that the Economic Intelligence Council (EIC) which is provided with the Secretarial assistance by the Central Economic Intelligence Bureau (CEIB), should meet frequently and the functioning of CEIB should be pro-active in coordinating with all the intelligence agencies dealing with economic and financial crimes.

Reply of the Government

Working Group/EIC meetings are held as and when required. The Central Economic Intelligence Bureau takes proactive action in coordinating with various intelligence agencies as already explained in reply to paragraph 150.

F.No. H-11013/6/2005-Parl. [Rev.]

CHAPTER IV

RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH REPLIES OF THE GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE

Recommendation (Sl. No. 4, Para No. 43)

The Committee feel that strict vigilance action against corrupt officials not only discourages corruption, but also encourages uprightness and gives moral courage to the honest officers. The extent of the efficiency of the vigilance mechanism decides the relative extent of evasion of tax. One of the major causes for corruption in tax departments relates to connivance of the corrupt officials with the evaders. The Committee are constrained to notice that there are many vigilance cases that are pending as on date and advice the Government to speed up disposal of the cases by making special efforts.

Reply of the Government

Central Board of Direct Taxes

The Director General of Income Tax (Vig.) [DGIT (Vig.)] & Chief Vigilance Officer (CVO), Central Board of Direct Taxes (CBDT) are already seized of the matter. Every year, the DGIT (Vig.) & CVO, CBDT prepares an Action Plan for disposal of cases pertaining to complaints, investigation and disciplinary proceedings etc. for all the four Directorates of Income Tax (Vig.) and monitors their performance on monthly basis. Wherever the shortfall, the concerned Director of Income Tax (Vig.) is directed to put extra efforts so that the targets are met. In the cases of long delayed Inquiry Proceedings the DGIT (Vig.) has written D.O. letters to the Inquiry Officers (IOs) indicating the specific date before which they should send their reports. Apart from this, the cadre controlling Chief Commissioners of Income Tax have been requested to impress upon the IOs working in their Charges to complete the Inquiry Proceedings within six months of their appointment as IOs and in case of delay on the latter's part take serious action against them. However, due to shortage of adequate manpower, both at the officer level and the supporting staff and also due to lack of proper infrastructure, it has not been possible to cope with the increasing workload which has resulted in increase in pendency of vigilance cases. Instructions have been issued to all the

four Regional Directors of income Tax (Vig.) to strictly abide by the time stipulations laid down by the CVC *vide* their letter No. 000/VGL/18 dated 23.5.2000 while dealing with vigilance matters.

Central Board of Excise and Customs

As regards Committee's observation regarding pendency of vigilance cases and speedy disposal of the same, special efforts are being made to speed up disposal of vigilance cases. As a part of these efforts. Chief Commissioners have been requested to advise all the disciplinary authorities *viz.* Commissioners, Addl./Joint Commissioners under their charge to ensure that charge memos wherever warranted are issued expeditiously. The Inquiry Officer/Presenting Officer are promptly appointed after taking prompt decision on written statements of defence, matter is pursued with I.Os to conclude inquiries early and decisions on inquiry reports are taken promptly. The Chief Commissioners have also been requested to ensure that vigilance cases in their jurisdictions are effectively monitored by senior officers. It is hoped that these efforts would contribute to expeditious disposal of the vigilance cases.

F.No. H-11013/6/2005-Parl. [Rev.]

Recommendation (Sl. No. 7, Para Nos. 119, 120 & 121)

The Committee observe that the Government had, in the last year's budget, mentioned that collection of arrears of tax revenue would be one of the main source of increase in tax revenue and also fixed a target in regard thereto.

They note with concern that the extent of realization of arrears of the personal income tax component of Direct Taxes upto February, 2005 raises doubts about the achievability of the balance targets and that there is also considerable deficiency in regard to realisation from the Indirect taxes too. They find this to be a serious failure as the target fixed was to the realised out of such tax arrears that were not contested and were not under any process of litigation. They seek specific reasons for the same from the Government.

They further note that though the targets for the year 2005-06 have not been announced publicly, internal targets have been set. The Committee are not in agreement with the changed policy of setting internal targets and urge the Government to come out publicly with the targets fixed for collecting uncontested revenue arrears.

Reply of the Government

Central Board of Direct Taxes

The Government had in the Budget for 2004-05 fixed a target of Rs. 7,000 crore for recovery of arrears of direct taxes. Against this target, the Government collected an amount of Rs. 7,083 crore.

In the Budget Estimates of direct tax collections for 2005-06, the collections on account of arrear-recovery is already incorporated, though no quantification of the estimated collections of arrears has been made in the Budget document. However, the Government has set an internal target to collect Rs. 10,342 crore from the arrears of direct taxes, which is about 45% more than the actual collections of 2004-05. These targets are for the entire arrear amount brought forward from last year.

Central Board of Excise and Customs

For the financial year 2004-05, targets of Rs. 750 crore and Rs. 2250 crore were fixed for Customs and Central Excise arrears collections respectively. The actual realisations were Rs. 843.49 crore and Rs. 1799.38 crore for Customs and Central Excise respectively. Overall for indirect taxes, 88% of the target was achieved. It is mentioned that targets were fixed not only with reference to uncontested tax arrears but also contested arrears *i.e.* cases where stay applications were pending with Tribunal/Commissioners (Appeals) and also cases where permissible appeal period was not over and parties were likely to go in appeal.

In the Budget Estimates of indirect tax collections for 2005-06, the collections on account of arrears recovery is already incorporated, though no separate quantification of the estimate of arrears collection targets has been made in the Budget document. The targets are fixed not only with reference to uncontested tax arrears but also, *inter-alia*, with reference to cases pending before appellate authorities, where stay application are pending.

F.No. H-11013/6/2005-Parl. [Rev.]

Recommendation (Sl. No. 8, Para No. 138)

The Committee observe that the pendency position of appeals both under the Direct taxes as well as the Indirect Taxes are serious cause of concern. It is observed that a whopping Rs. 55,138 crores and Rs. 19473 crores, are locked up in dispute at various levels under the

Direct Taxes and Indirect Taxes respectively. Of this, the locked up revenue with the Tribunals concerning Direct and Indirect Taxes, account for more than half of the total revenue locked up under the Direct and Indirect Taxes. The Committee also desire to be furnished with detailed information on the pendency position of appeals, both under Direct and Indirect Taxes *inter alia* indicating the length of pendency of the cases and amounts involved. The Committee note that one of the main causes for the delay in disposal of cases by the Income Tax Tribunal gives stay beyond the mandatory 180 days provided for in the Income Tax Act.

Reply of the Government

Central Board of Direct Taxes

The total revenue locked up in cases before the ITAT as on 31st March 2004 was Rs. 2784411 (lacs). The detail of agewise pendency of appeals filed by the Revenue, before the Income Tax Appellate Tribunal, as on March 2004 is as follows:

Age of appeals	Before ITAT (in No.)
Less than One year	29595
1 to 2 years	12878
2 to 3 years	9487
3 to 4 years	6874
4 to 5 years	11394
Above 5 years	1586
Total	71814

Central Board of Excise and Customs

As regards detailed information on the pendency position of Appeals in respect of Indirect Taxes, a detailed analysis of the cases pending at various appellate fora and the amount involved therein as on 31.12.2004 and as on 31.3.2005 is enclosed (Annexure-I). The study of the comparative statements highlights the following points:

- (1) In respect of Supreme Court cases, there is a marginal increase in number of cases and the amount involved has also decreased by 3.01% as compared to the position on 31.12.2004.

- (2) In respect of High Court cases, there is an increase in number of cases by 2.7% but a marginal decrease in amount involved compared with the figures of 31.12.2004.
- (3) The number of cases in the CEASTAT has increased by 2.77% as on 31.3.2003 as compared with the position on 31.12.2004. There is a decrease in the amount involved by 2.48%.
- (4) The earlier trend of decrease in the number of cases pending with the Commissioners (Appeals) is continuing. In fact, pendency from 10739 cases as on 31.12.2004 has come down to 9140 cases as on 31.3.2005. Similarly, the revenue involved in such cases has also reduced from Rs. 1421 crores to Rs. 1197 crores. Thus there is a decrease in number of cases by 14.88% and the amount involved by 15.76%.
- (5) A study of the number of appeals (on percentage basis) filed by the Department and by the parties in the various appellate fora, as on 31.3.2005, indicates the following trend.

Sl.No.	Appellate Forum	Total No. of Cases as on 31.3.2005	Percentage of Cases Filed by the Department	Percentage of Appeals Filed by the Parties
1.	Supreme Court	2038	65	35
2.	High Court	8793	31	69
3.	CESTAT	23396	43	57
4.	Commissioner (A)	9140	19	81

From the above, it may be concluded that the percentage of appeals filed by the parties before High Courts, CESTAT and Commissioner (Appeals) is very high in comparison to the appeals filed by the Department before these fora. The high percentages of parties' appeals indicate that the Orders-in Original were in favour of the Department or the Department has won these cases in the concerned lower appellate fora. However, the percentage of departmental appeals in the Supreme Court continues to be on higher side.

- (6) The number of appeals filed by the Department before the Supreme Court during the quarter ending March, 2005 has

come down when compared with the appeals filed by the parties during the same period (Annexure-II).

As regards the length of pendency of cases, information is not available and is being collected from the field formations.

E.No. H-11013/6/2005-Parl. [Rev.]

Recommendation (Sl. No. 8, Para No. 139)

Further, the Government have stated that since the Tribunals function under the Ministry of Law, the Ministry of Finance, Department of Revenue are not in a position to justify the pendency of such huge number cases in the Tribunals. While appreciating the effort of the Chief Commissioners of Income Tax to call on the Members/President of the Income Tax Appellate Tribunal, in effort to resolve high demand appeals on priority basis, the Committee urged the Government to also pursue the matter with the Ministry of Law and find a solution to the problem within a time-frame. They take note of the particular efforts taken by the Income Tax Department in minimising the number of appeals, like requesting the Supreme Courts and High Court to adjudicate tax disputes on priority basis, fixing monitoring limits as regards filing of appeals before the Tribunal/High Court/Supreme Court, filing appeals only on issues involving "substantial question of law" etc. which are in the right direction that the Committee feel that the Central Board of Excise and Customs may try to follow.

Reply of the Government

Central Board of Direct Taxes

The Member (Audit & Judicial), Central Board of Direct Taxes, has *vide* letter to even no dated 12/5/2005 (copy enclosed) addressed to the Law Secretary, Ministry of Law & Justice, apprised him of the deep concern expressed by the Committee while requesting for suitable intervention in the matter to expedite the disposal of pendency with the ITAT in time bound manner. The copy of the same has also been endorsed to the president ITAT for doing the needful.

Central Board of Excise and Customs

The following measures have been taken to reduce pendency of cases in Courts:

- (i) A mechanism of Secretary-level/Minister-level meetings with Ministry of Law is now in place with a view to increase

the efficiency and efficacy in the conduct of Departmental litigation. The first Secretary-level meeting was held on 6.12.2004. Subsequently, the Finance Minister, in the meetings held reviewed the progress of the Secretary-level meeting with the Solicitor General of India, Law Secretary and other officials concerned in Ministry of Law on 1.4.2005 and 16.5.2005.

- (ii) The Finance Ministry had advised the concerned Chief Commissioners of Customs and Central Excise to coordinate with the Chief Commissioner of Income Tax and jointly seek an appointment with the Chief Justice of the High Court in their respective zones and to hand over to the Chief Justice a letter from F.M. along with a list of high value and important cases pending in the High Court. Progress of the cases is being monitored.

F.No. H-11013/6/2005-Parl. [Rev.]

Recommendation (Sl. No. 8, Para No. 140)

The Committee further desire that a study may be conducted by the Government regarding the large number of cases pending at various stages of appeal, with specific focus on the reasons for the huge pendency with the Tribunals and suitable remedial measures to be taken to reduce them drastically. Inordinate delay in disposal of cases may indirectly encourage the assesseees to go in for appeal even on a case no hope. The Committee want the Government to take all these steps in a time bound manner and be intimated about the actions taken in this regard by the Government.

Reply of the Government

Central Board of Direct Taxes

The number of cases pending at various stages with the appellate authorities as on 31st March 2004 is as follows:

Authority	No. of Cases
Income Tax Appellate Tribunal*	71,814
High Court	29,334
Supreme Court (*of Deptt. only)	4,443

It can thus be appreciated that substantial number of appeals is pending with Income Tax Appellate Tribunal. The functioning of the Income Tax Appellate Tribunal is under Ministry of Law and hence no further comments/study can be tendered/conducted on the functioning and resultant pendency of the cases resting as on date with the ITAT.

Central Board of Excise and Customs

A Committee has been constituted to conduct the study regarding pendency of cases at various stages of appeals, with specific focus on reasons for huge pendency before various Benches of CESTAT, and to suggest measures for reducing the pendency.

F.No. H-11013/6/2005-Parl. [Rev.]

CHAPTER V

RECOMMENDATION/OBSERVATION IN RESPECT OF WHICH
FINAL REPLY OF THE GOVERNMENT IS STILL AWAITED

—Nil—

NEW DELHI;
21 December, 2005
30 Agrahayana, 1927 (Saka)

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

MINUTES OF THE TENTH SITTING OF STANDING
COMMITTEE ON FINANCE

The Committee sat on Monday, 19 December, 2005 from 1500 to
1615 hrs.

PRESENT

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

MEMBERS

Lok Sabha

2. Shri Jaswant Singh Bishnoi
3. Shri Gurudas Das Gupta
4. Shri Bhartruhari Mahtab
5. Shri Madhusudan Mistry
6. Shri Rupchand Pal
7. Shri Shriniwas D. Patil
8. Shri Jyotiraditya Madhavrao Scindia
9. Shri M.A. Kharabela Swain
10. Shri Magunta Sreenivasulu Reddy

Rajya Sabha

11. Shri Yashwant Sinha
12. Shri Chittabrata Majumdar
13. Shri C. Ramachandraiah
14. Shri Mangani Lal Mandal

SECRETARIAT

1. Dr. (Smt.) P.K. Sandhu — *Additional Secretary*
2. Shri A. Mukhopadhyay — *Joint Secretary*
3. Shri S.B. Arora — *Deputy Secretary*
4. Shri T.G. Chandrasekhar — *Under Secretary*

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

3. The Committee, then considered the draft reports on (i) Action taken by the Government on the recommendations contained in the Sixteenth Report of the Committee on Demands for Grants (2005-06) of the Ministry of Finance (Departments of Economic Affairs, Expenditure and Disinvestment), (ii) Action taken by the Government on the recommendations contained in the Eighteenth Report of the Committee on Demands for Grants (2005-06) of the Ministry of Planning and (iii) Action taken by the Government on the recommendations contained in the Twentieth Report of the Committee on Demands for Grants (2005-06) of the Ministry of Company Affairs.

4. The Committee adopted the draft action taken reports mentioned above without any modification/amendment.

5. The Committee then considered and adopted the draft action taken report on the recommendations contained in the Seventeenth Report on the Demands for Grants (2005-06) of the Ministry of Finance (Department of Revenue) with the modifications/amendments shown in Annexure.

6. ** ** **

7. While deliberating on the draft action taken reports, the Committee also decided that separate notes may be called for from the Ministries/Departments concerned on the following issues:

(i) ** ** **

(ii) Action Plan for recovering the tax arrears in entirety—contested as well as uncontested.

(iii) ** ** **

(iv) ** ** **

(v) ** ** **

8. The Committee authorised the Chairman to finalise the Reports and to make verbal and other consequential changes and present the same to both the Houses of Parliament.

The Committee then adjourned.

ANNEXURE

[MODIFICATIONS/AMENDMENTS MADE BY STANDING COMMITTEE ON FINANCE IN THEIR DRAFT ACTION TAKEN REPORT ON THE DEMANDS FOR GRANTS (2005-06) OF THE MINISTRY OF FINANCE (DEPARTMENT OF REVENUE) AT THEIR SITTING HELD ON 19 DECEMBER, 2005]

Page	Para	Line	Amendment/Modification
11	18	10	<p><i>After:</i></p> <p>...targets for recovery of tax arrears in the budget document in the coming years.</p> <p><i>Add:</i></p> <p>The Committee also recommend that the Government formulate a concrete action plan for recovering the tax arrears in entirety by devising separate means for recovery of contested and uncontested arrears. The concrete action plan may be submitted to the Committee within six months of tabling of this Report.</p>

APPENDIX

(Vide Para 3 of the Introduction)

ANALYSIS OF THE ACTION TAKEN BY GOVERNMENT ON THE RECOMMENDATIONS CONTAINED IN THE SEVENTEENTH REPORT OF THE STANDING COMMITTEE ON FINANCE (FOURTEENTH LOK SABHA) ON DEMANDS FOR GRANTS (2005-06) OF THE MINISTRY OF FINANCE (DEPARTMENT OF REVENUE)

	Total	% of Total
(i) Total Number of Recommendations	9	
(ii) Recommendations/Observations which have been accepted by the Government: (Vide Recommendation at Sl. Nos. 1, 3, 5 & 6)	4	44.44%
(iii) Recommendations/Observations which the Committee do not desire to pursue in view of the Government's replies: (Vide Recommendation at Sl. Nos. 2 & 9)	2	22.22%
(iv) Recommendations/Observations in respect of which replies of the Government have not been accepted by the Committee: (Vide Recommendation at Sl. Nos. 4, 7 & 8)	3	33.33%
(v) Recommendations/Observations in respect of which final replies of the Government are still awaited: (Nil)	Nil	