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**STANDING COMMITTEE
ON FINANCE
(2006-2007)**

FOURTEENTH LOK SABHA

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

**INTRODUCTION OF NEW INCOME
TAX RETURN FORMS**

FORTY-FIRST REPORT



**LOK SABHA SECRETARIAT
NEW DELHI**

November, 2006 / Kartika, 1928 (Saka)

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(DEPARTMENT OF REVENUE)

INTRODUCTION OF NEW INCOME TAX
RETURN FORMS

Presented to Lok Sabha on 28.11.2006

Laid in Rajya Sabha on 28.11.2006



LOK SABHA SECRETARIAT
NEW DELHI

November, 2006/Kartika, 1928 (Saka)

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COMPOSITION OF STANDING COMMITTEE ON
FINANCE (2006-2007)

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INTRODUCTION

I, the Chairman, Standing Committee on Finance, having been authorised by the Committee to submit the Report on their behalf present this Forty-First Report on the subject 'Introduction of New Income Tax Return Forms'.

2. At their sitting held on 12 June, 2006 the Ministry of Finance (Department of Revenue) briefed the Committee on the subject 'Introduction of New Income Tax Return Forms'. The Committee, at their sitting held on 27th July, 2006 selected the subject 'Introduction of New Income Tax Return Forms' for examination and report. The Committee took oral evidence of the representatives of the Ministry of Finance (Department of Revenue) on 19 September, 2006. At their sitting held on 27 October, 2006, the Committee considered and adopted the draft report.

3. The Committee authorised the Chairman to finalise the Report by taking into consideration the suggestions/modifications suggested by some of the members during the sitting.

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

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

NEW DELHI;
16 November, 2006
25 Kartika, 1928 (Saka)

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

REPORT

Every year, the Central Board of Direct Taxes is required to notify income tax return forms for the particular Assessment Year in view of the legislative changes as well as feedback from the public. This year, CBDT have notified two new forms *i.e.* Forms 2F & 3B applicable for the Assessment Year 2006-07, for filing returns of income and fringe benefits along-with the Form Nos. 1, 2 and 3. All these Forms have substituted the Forms that existed earlier.

2. In view of the ever-growing number of forms notified by the Board each year, the accompanying apprehensions of the taxpayers as to which form to use and the complex nature of details that the assessee is expected to furnish in these new forms, the Committee decided to examine the matter in detail, as given in subsequent paragraphs.

Part I

3. The new Forms that have been notified for the year 2006-07 are as follows:

Form 1: The Form is meant for companies, and it is mandatory for AY 2006-07. It is a return of income cum fringe benefits. It is meant for corporate assesses and has three parts. Part A deals with general details and formatted balance-sheet and profit and loss account. In the case of assesseees not liable for audit under Section 44AB, furnishing of certain details is optional. Where the accounts are liable for audit under the Section, the required information has to be furnished compulsorily and the sequence of information is similar to that for tax audit given in Form 3CD. Part B deals with computation of income. And Part C with computation of fringe benefits and tax thereon. There are 25 supporting schedules containing elaborately all the heads of income (excluding salary), details for computation of depreciation, computation of income under Section 115 JB, valuation of fringe benefits, advance tax and other particulars.

Form 2: The Form is meant for non-corporate assesseees having income from business or profession, and it is optional for AY 2006-07. It is a return of income cum fringe benefits. It is meant for non-corporate assesseees having income from business or profession and is similar to Form 1 in many aspects. The differences pertain to (a) salary income; (b) clubbing of income of other persons; (c) book profit under

Section 115 JB; (d) tax on distributed profits applicable for domestic companies; (e) cash flow statement; (f) dividend distribution tax details; and (g) TDS in respect of salary income.

Form 3: The Form is meant for non-corporate assessee not having income from business or profession. It is optional for AY 2006-07. The Form is applicable to assessee not having income from business or profession and contains details to be furnished in respect of incomes and does not deal with FBT.

4. Two forms introduced by the CBDT this year are as follows:

- (i) **Form 2F:** This new Form, notified on 1 June, 2006, is meant for resident individuals/HUF not having income from business/profession or agricultural income (except long term capital gains from transactions on which Securities Transaction Tax is paid) and not claiming relief u/s. 89 and not owning more than one house property.
- (ii) **Form 3B:** This Form notified on 24 July, 2006, is FBT (Fringe Benefit Tax) return applicable for AY 2006-07. The Form is a return of fringe benefits to be used additionally by those non-corporate assessee who desire to file their return of income in Form 2D for the AY 2006-07. It is also applicable for corporates who have furnished their return of income before July 24.

5. Assessee (both corporate and non-corporate) who have already filed return of income for AY 2006-07 but who have to file FBT return, have to use Form 3B. In the case of non-corporate assessee who have not filed return of income so far but having income from business or profession may use either Form 2D or the new Form 2. In case they file their return in Form 2D, then FBT return in Form 3B is to be filed separately. If the taxpayer proposes to use new Form 2, then FBT return in Form 3B need not be filed separately as the (new) Form 2 is a return of income cum fringe benefits.

6. As per the Ministry, Form 2 and 3 are comprehensive forms with schedules/worksheets.

7. When a point was raised by the Committee as to what were the changes that have been effected in various return forms and the reasons for bringing out the same, the Ministry in their written reply stated as follows:—

“Form Nos. 1, 2 and 3 have been made electronically compatible. The requirement to attach any annexures with these Forms has been done away with. The relevant details regarding tax payments, audit, balance sheet, etc. are now captured in the Form itself.”

8. Asked specifically on the various forms available for filing Income Tax return, the Ministry stated that as on date, following Forms are available to various categories of tax assesseees:

- (i) Form No. 1 — for companies other than those claiming exemption under section 11.
- (ii) Form No. 2 — for non-corporate assesseees having income from business and profession and not claiming exemption u/s. 11.
- (iii) Form No. 2D—for non-corporate assesseees other than person claiming exemption u/s. 11.
- (iv) Form 2F — for resident individual/HUF not having income from business or profession or agricultural income or capital gains (except long term capital gains from transactions on which Securities Transaction Tax is paid) and not claiming relief u/s. 89 and not owning more than one house property.
- (v) Form No. 3 — for non-corporate assesseees not having income from business and profession and not claiming exemption u/s. 11.
- (vi) Form No. 3A — for assessing including companies claiming exemption u/s. 10 or 11.
- (vii) Form No. 3B — residual Form for furnishing return of Fringe Benefits.
- (viii) Form No. 16AA — Certificate for tax deducted at source from income chargeable under the Head 'Salaries'-cum-return of income.

9. All the above-mentioned eight Forms are available for Assessment Year 2006-07. In addition, Form No. 2E (Naya Saral) was also available upto 31.07.2006.

10. The Government have introduced furnishing of a 'Cash Flow Statement' with Forms 2, 2F & 3. In this connection, the Committee desired to know the justification for including such a statement in these Forms, to which the Ministry in their written reply stated the following:—

“The underlying objective of seeking information relating to cash-flow is to avoid implicit scrutiny of taxpayers on account of information received through Annual Information Returns (AIR). The Cash Flow Statement will enable the Department to undertake

preliminary verification of the AIR information and identify only such cases or intensive investigation where the probability of detection is extremely high. This will considerably reduce the compliance burden of taxpayers and also enhance the effectiveness of the tax administration. However, it is optional for a taxpayer filing return in Form No. 2, 3 or 2F to fill out the Cash Flow Statement. Later in a separate communication, the Ministry stated that chances of intrusive investigation were more in cases where the Cash Flow Statement is filled out. In other forms (Form No. 1 for Corporation tax payers and Form No. 3A for Trusts, etc.), the Cash Flow Statement has not been sought because, according to the Ministry, such tax payers maintain detailed accounts which are audited also.”

11. The Committee raised a point as to what were the reasons for exempting the assessee falling in categories other than those who file returns in Forms 2, 2F and 3, from giving the Cash Flow Statement, to which the Ministry replied as under:—

“Form No. 1 which is meant for companies does not provide for cash flow as the accounts of the company are statutorily audited. The Cash Flow Statement is not necessary in such a case. Form No. 3B is a residual Form for filing return of Fringe Benefits and not of income. Therefore, a Cash Flow Statement is not required. Assessee filing return in Form No. 3A are also required to get their accounts audited. Form No. 2D can be used by every taxpayer other than companies or trusts. This Form requires filling of all the Annexures. Since in any case filling-out the cash flow is optional for Assessment Year 2006-07, there is no special advantage to a taxpayer filling-out Form No. 2D. Form No. 16AA is a TDS-cum-return Form applicable in case of a salaried taxpayer having gross salary upto Rs. 1,50,000/- and if there is no other income to report other than the income on which tax has been deducted by the employer. Thus this Form is meant for small and marginal salaried taxpayers for which a cash flow may not be necessary.”

Part II

Form No. 2F:

12. Form No. 2F is the Form, in which majority of the salaried taxpayers are expected to file their tax returns. However, concerns have been expressed over the introduction of the ‘Cash Flow Statement’ in the Form, which requires the assessee to furnish details of *inter-alia*, expenditure incurred during the particular year. The

Government subsequently introduced the Cash Flow Statement in the Form Nos. 2 and 3 also. Therefore, the Committee dealt with this issue in detail, which is given in the subsequent paragraphs of this report.

13. The Government notified this Form on 1st June, 2006. It is a four-page return form seeking information from the taxpayers on his income, tax liability, payment of taxes and his annual cash flow.

14. Form No. 2F came into effect immediately *i.e.* for the assessment year 2006-2007. However, to allow sufficient time to taxpayers to familiarise with this Form, the Government had allowed the existing one page Form No. 2E (Naya Saral) to be used upto 31.07.2006. Thus, the new Form No. 2F has effectively replaced the Form No. 2E (Naya Saral) after 31.07.2006. However, even after 31.7.2006, it is optional to file the return in Form No. 2F.

15. As per the Ministry, the new Form No. 2F can be used by resident individuals and HUF who do not have:—

- (i) profits and gains of business of profession; or
- (ii) capital gains; or
- (iii) agriculture income; or
- (iv) more than one house property; or
- (v) any claim for relief under section 89 in respect of arrears or advance of salary.

16. However, Individuals/HUF, having long-term capital gains from transactions in securities, on which Securities Transaction Tax (STT) has been paid, can also use this Form. As per the Ministry of Finance, the new Form No. 2F is basically an expanded form of existing Form No. 2E (Naya Saral) except that it also seeks a “Cash Flow Statement” about the incomings and outgoings. The Cash Flow Statement is essentially a summary of income, receipts such as gifts, loans etc., investments and expenditures of the taxpayer during the year. On the expenditure side, the individual has to indicate investments made during the year. He has to declare deductions claimed under Chapter

*Deductions in respect of insurance premia, deferred annuity, contributions to provident fund, subscriptions to equity shares or debentures; deductions in respect of investment in certain new shares; deductions in respect of deposits under National Savings Scheme or payment to a deferred annuity plan; deduction in respect of investment made under equity linked Savings Scheme etc.

VIA* of the Income Tax Act, for example, contributions made to Provident Fund etc., as well as the amount invested in immovable property, vehicles, jewellery, shares etc. Although a detailed break-up of each item of expenditure is not required, the aggregate amount received during the year has to match the aggregate amount spent at the end of the year.

17. In response to a related query of the Committee that since the new Form 2F can only be used by resident individuals and HUF who do not have profits and gains from Business, Capital gains and agricultural income more than one house property etc., what Form of return can be used by persons having such types of income, the Ministry stated that such persons can use Form No. 2 and Form No. 2D. Further, persons not having income under the head 'profits and gains of business and profession' can also use Form No. 3.

18. In a background note furnished to the Committee on the issue, the Ministry informed the Committee that the following difficulties with regard to existing Form No. 2E (Naya Saral) necessitated effecting the changes in the overall format of the same:—

- (i) There is no sufficient space to fill the various details called for in this return.
- (ii) For computation of the income, the taxpayers invariably attach the annexures.
- (iii) Taxpayers are also required to attach TDS certificates on basis of which credit for the tax is to be allowed. Many a times the TDS certificates are misplaced resulting in considerable compliance burden on the taxpayers. In such situation, the taxpayer is required to furnish an indemnity bond and also duplicate copy of the TDS certificates before his claim for tax credit could be allowed.
- (iv) The explanatory instructions attached with the existing Form are extremely sketchy and are not sufficient for guidance of the taxpayer to fill the return.
- (v) Though the law permits to call for the details of outgoings in the Form of return but, such details are not being called for in the existing Form. In absence of the such details, it is difficult to match the information being collected by the Department from third parties through the Annual Information Return (AIR).
- (vi) The returns in the existing forms are not suitable for electronic transmission. Moreover, the details furnished in the annexures are not in standardised format and thus can not be easily captured on the computer system.

19. According to the Government, the new four-page Return Form No. 2F has been designed and notified to overcome the above-mentioned problems. The salient features of this Form have been furnished as follows:—

- (i) It has been expanded to four pages. The details called for in Form No. 2E (Naya Saral), which was compressed in a single page are now spread over two and three quarter pages so as to provide sufficient space to fill the details.
- (ii) No annexures are required to be attached with this Form. The fourth page of the new return Form No. 2F seeks to capture the details contained in the TDS certificates so as to dispense with any attachment of the TDS certificates. Taxpayers have been advised to keep the TDS certificates in their safe custody for verification by the Department if necessary. This new method is designed to safeguard the interest of taxpayers.
- (iii) The instructions attached with this Form have been made exhaustive to help the taxpayers to fill this Form. For this purpose, most entries in the Form have been cross-referenced with the instruction.
- (iv) Schedule-5 of the new Form seeks “Cash Flow Statement” of incomings and outgoings. However, for assessment year 2006-07, it is optional to fill this schedule. In this schedule, the taxpayer is required to furnish the lump-sum amount relating to his inflow and outflow of funds during the year. The taxpayer is not required to furnish any details of individual items of inflow and outflow. The main advantage of furnishing the Cash Flow Statement is that the information collected from the third party sources through Annual Information Return (AIR) can be verified with the outgoings during the year. Therefore, this would substantially reduce the probability of scrutiny assessment or any other kind of intrusive investigation. The taxpayer will considerably benefit for not having to explain each piece of information through the AIR.
- (v) The new Form has been made computer compatible. The relevant details filled in the Form in the standardised format can easily be captured/transmitted electronically. Further, it has been provided that the details to the new Form may be first transmitted electronically on the Department’s website. However, such transmission has been made optional.

20. Responding to a point raised by the Committee, during the oral evidence of the representatives of the Ministry of Finance that in the guise of making more space, Department is introducing something which is very dangerous *i.e.* the Cash Flow Statement, the Ministry in their post-evidence reply stated as under:—

“The significant new addition in Form 2F *vis-a-vis* Form 2E (Naya Saral) is the summarised version of Cash Flow Statement. This statement will protect the salaried taxpayer from any kind of intrusive investigation. There is nothing in Form 2F, which can remotely be termed as ‘dangerous’.”

21. To a query of the Committee, during the meeting, on what exactly Department is going to achieve in terms of Income Tax evasion, the Ministry, in their post-briefing reply, stated the following:

“In the recent past the enforcement strategy of the Income-tax Department has undergone a paradigm shift. The emphasis has shifted from intrusive investigation techniques to use of non-intrusive methods for developing a modern taxpayers’ information system. In January, 2004, the Income-tax Department established the Taxpayer Information Network (TIN) to manage the growing volume of information and undertake extensive verification. This initiative received an impetus with the operationalisation of information collection through the Annual Information Returns (AIR) in December 2004. Since then, the Department has received close to 18 lakh pieces of information relating to high value transactions valued at about Rs. 13 lakh crores. This volume will further increase with the expansion in the scope of AIR. In order to increase the deterrence effect of enforcement, it is necessary to undertake verification of this information. Towards this objective, the Department had to issue a large number of letters to taxpayers. Such a verification exercise amounts to “scrutiny assessment” in all such cases thereby imposing additional compliance burden on all persons receiving the verification letters. Moreover, in large number of cases the transactions would be accounted thereby making the verification exercise infructuous. Since the limited resource of the Income Tax Department would be thinly spread across a large number of such persons, the probability of detection will be extremely low even in cases where there is tax evasion. The cost of this exercise will, therefore, substantially outweigh the benefits. Accordingly, it is necessary to design a risk management strategy which would maximise the benefits of such an exercise. It was, therefore, considered necessary to obtain information of annual

inflows and outflows in a summarised manner from the taxpayer. This will enable the Department to undertake preliminary verification of the AIR information and identify only such cases for intensive investigation where the probability of defection is extremely high. This will considerably reduce the compliance burden of taxpayers and also enhance the effectiveness of the tax administration. Since the AIR transactions relating to salaried taxpayers is most likely to be accounted for, it was important to protect them from intrusive direct verification by obtaining information through an annual cash-flow statement. The tax compliance by the salaried taxpayers is the highest. The Government is committed to minimising the compliance burden for this category of taxpayers. The annual cash-flow statement will mitigate the compliance burden which would otherwise be imposed on them in the process of verification of AIR information. Simultaneously, the scarce resources of the Department would be utilised for vigorously pursuing the tax evaders. This will improve the effectiveness of tax administration resulting in higher revenue collections.”

22. While explaining the Department’s position with respect to apprehensions that the new Form No. 2F is lengthy as well as difficult to fill, the representative of CBDT submitted during the meeting as under:—

“...in some quarters, it has been pointed out that it is difficult to fill out the Form. A perusal of the Form would show—unlike in other Forms—that most entries in Form No. 2F are cross-referenced to instructions or to work sheets, that is, the Schedules. Therefore, filling out this new Form should be simple exercise.

The third apprehension expressed is that the Form is too long. In this regard I would like to humbly submit before the Hon’ble Committee that for small and marginal taxpayers a return form serves as a source of information about the tax law. Therefore, it is necessary to design the Form so as to create awareness amongst the taxpayers of their rights and obligations without imposing undue compliance burden. The new Form intends to serve this objective. As indicated earlier, the Form provides sufficient space and necessary work sheets for filling out. In Fact, the information compressed in one page in Form No. 2E is now spread over two and three-quarter pages. Similarly, page 4 of the new Form substitutes the various Tax deduction certificates and other proofs required to be enclosed. The new Form strikes an appropriate

balance between compliance burden, the information necessary for enforcement, the needs of computerisation, and taxpayer education.”

23. The Ministry, in their written replies to the Committee, further stated as under:

“One of the objectives of the new Form 2F is to enable taxpayers to fill the form without any external assistance. This is sought to be achieved by providing detailed instructions, cross-referencing of each entry with the instructions and worksheets in the form of Schedules.”

24. During the meeting, a point was raised as to what should the taxpayers do, who have not maintained accounts the way the tax department wants the assesseees to do, to which the Ministry in their post-briefings reply stated as follows:

“It is optional for the taxpayer to file his return for assessment year 2006-07 in Form 2F. Even if a taxpayer chooses to file his return in Form 2F, he still has the option of not filling out the cash-flow statements in Schedule 5. In any case, there is no requirement of maintaining accounts which a taxpayer was not required to maintain earlier.”

25. Answering a query of the Committee on the mechanism to prevent possible harassment of assesseees, the Ministry in their post-briefing reply stated as under:

“Regarding the possible misuse of the information furnished through the cash-flow statement, internal instructions are proposed to be issued whereby all notices to the taxpayer seeking explanation for any mismatch will be issued only with the prior approval of the Commissioner of Income-tax.”

26. Responding to the apprehensions expressed with regard to cash flow statement, the representative of the CBDT, clarified during the meeting as under:

“...apprehension is that the salaried taxpayers would be obliged to maintain detailed accounts of their inflow and outflow, that is, their expenditure. A perusal of Schedule 5 seeking cash-flow statement would show that a taxpayer is not required to fill out the details of each item of inflow or outflow. It requires him to fill out only the total of the amounts. As well all know, the aggregate of cash or bank balance at the beginning of the year and the

incomings during the year must always match the aggregate of the outgoings and the cash or bank balance at the end of the year. Since the incomings during the year and the cash or bank balance both at the beginning and at the end of the year are known to all taxpayers, the total outgoings can be easily derived.

Further, the break-up of the total outgoings into the three categories, namely, investment or expenditure in respect of which deduction is claimed under Chapter VIA; other investments like immovable property, vehicles, bonds, jewellery, shares, units and other financial instruments; and other outgoings including household expenses is also into difficult to furnish. The amounts relating to the first two categories are known to all taxpayers since these are lumpy investments supported by underlying documentations. Therefore, the third category is a residual amount and can be easily derived. The cash-flow statement does not require any extra details or books of accounts to be maintained on the part of the salaried taxpayers."

27. To a point raised on how the department intends to verify the correctness of the entries made in the absence of annexures, once people start filing the tax returns in Form 2F, which is supposed to be free from annexures, the Ministry in their written reply stated as under:

"The enforcement strategy of the IT Department is based on risk management. Given the resources available to the Department, only 2% of the returns (approx.) are subject to scrutiny. In this process of scrutiny, Department has the power to call for all supporting documents. The Department has to accept the disclosure made by taxpayers in the balance 98% of returns. The Department has no authority to make any *prima facie* adjustments in these 98% returns. Therefore, annexures and supporting documents are meaningless in all cases."

28. When asked by the Committee specifically whether there is any likelihood of the Department reconsidering Form 2F, the Ministry stated *inter-alia* as follows:

"...for assessment year 2007-08, the return forms will need to be re-notified in terms of provisions of the Income-tax Act. However, while notifying the return Form 2F for assessment year 2007-08, the Government will take into account all suggestions that it receives from various quarters on the design of Form 2F."

RECOMMENDATIONS

29. Income Tax return forms are assessment year specific and are, therefore, required to be notified each year by the Central Board of Direct Taxes, Ministry of Finance. Accordingly, the Committee note that the Government had notified new forms of tax returns, namely, Form 2F and 3B, apart from notifying Form-1, Form-2, Form-2D, Form-3, Form-3A and Form-16AA for the Assessment Year 2006-07 for enabling taxpayers to file their returns of income and fringe benefits. From the deposition of the Ministry, they further note that the main reason for the changes made in the return forms is to make them electronically compatible and to do away with the requirement to attach any annexures. In this context, the Committee observe that one of the prominent features that the Government have introduced this year in the Forms 2, 2F and 3 is that of attaching a 'Cash Flow Statement'. They have been given to understand that this statement would help in avoiding implicit scrutiny of taxpayers on account of information received through Annual Information Returns (AIR). Furnishing of the Statement, according to the Government, would enable the Department to undertake verification of the AIR information and identify only such cases for intensive investigation where the probability of detection is extremely high. The Statement requires aggregate of cash or bank balance at the beginning of the year and, the incomings during the year must always match with the aggregate of the outgoings and the cash or bank balance at the end of the year. Further, the break-up of the total outgoings is to be furnished in three categories, namely, investment or expenditure in respect of which deduction is claimed under Chapter VIA; other investments like immovable property, vehicles, bonds, jewellery, shares, units and other financial instruments; and other outgoings including household expenses. However, the Committee note that the Government made it optional for the taxpayers filing return in Form No. 2, 3 or 2F for the assessment year 2006-07 to fill out the Cash Flow Statement.

30. Since the introduction of the new Form 2F attracted considerable public interest leading to adverse media reports and is considered to be the Form in which the salaried taxpayer is expected to file his tax return, the Committee considered it a matter requiring further attention. Accordingly they examined this issue in detail.

31. The Form 2F is a four page form seeking information from the taxpayers on his income, tax liability, payment of taxes and his annual cash flow statement about the incomings and outgoings. In this regard, the Committee note that certain difficulties with regard to the earlier Form 2E (Naya Saral) had necessitated certain changes therein and therefore the Department decided to notify the new Form 2F. The said difficulties have been explained by the Department in the earlier Form as lack of sufficient space, requirement of attachment of annexures, inadequate explanatory instructions, difficulty in matching information being collected by the Department from third parties through the Annual Information Return (AIR) and unsuitability for electronic transmission. The new Form 2F, according to the Government has been designed to overcome the above difficulties.

32. The Committee are aware that the concern of the public is focussed on the inclusion of 'Cash Flow Statement' in the new Forms, particularly 2F. The Government's justification for the introduction of the Cash Flow Statement is that huge volume of information is gathered through the Annual Information Report (AIR) necessitating verification of this information. To avoid issuing of large number of letters to such taxpayers whose expenditures have come to be known through the AIR and thus imposing additional compliance burden on all persons receiving the verification letters, the Government have introduced the provision of 'Cash Flow Statement' in the Returns. The Department have also taken the stand that this "Risk Management Strategy" in the form of obtaining the information through the Cash Flow Statement would enable them to first undertake a preliminary verification of the AIR information and take up only such cases for intensive investigation where the probability of detection is extremely high. However, the Committee note that at the same time the Government have also admitted that the salaried class are the most honest taxpayers and that only 2% of the total returns filed in this category are taken up for scrutiny by the Department.

33. The Committee observe that though the Government have sought to allay the apprehensions expressed by them by taking the stand that furnishing of the Statement would protect the salaried taxpayers from any kind of intrusive investigation, the assessee need not furnish detailed information regarding the expenditure and to maintain any kind of accounts in this regard, it still does not sound convincing. However, the Committee are of the opinion that the details called for in the statement would surely require the assessee to maintain some kind of accounts.

34. While the Committee appreciate the efforts of the Government to continuously improve the format of the return forms on the basis

of feedback received as well as difficulties faced both by the taxpayers and the Department, they are of the view that producing a Cash Flow Statement has, in general, created confusion and apprehension among the assesseees, thus requiring a re-look at the same. This requirement has also created doubts in the minds of assesseees about the records that are needed to be maintained without which the account of the cash transactions will not be easy to tally. This can prove to be difficult because an individual may incur expenditure on several items at different places and keeping track-record of all such transactions can be quite cumbersome and tough. Besides it has created apprehensions in the minds of taxpayers that once the requisite information is furnished, more intrusive investigation will follow and more problems will accrue. Further, the Committee are not convinced by the argument put forth by the Department that internal instructions, proposed to be issued to the filed formations, that notices to the taxpayers seeking explanation for any mismatch can be issued only with the prior approval of the CIT, are enough to allay the fears in the mind of taxpayers as in the opinion of the Committee, these are ultimately going to be treated as routine instructions. Moreover, in the light of the fact that only 2 per cent of the returns filed are subject to scrutiny assessment and the Department is supposed to accept the disclosures made by the taxpayers in balance 98 percent of the returns, the Committee find it absolutely unnecessary to include Cash Flow Statement in the Return Forms. Last, but not least, the Committee are of the opinion that once the income is taxed, utilisation of taxed income by the assessee should not be the concern of the Income Tax Department. Therefore they recommend that the Government must do away with the provision of Cash Flow Statement in Form Nos. 2F and 3 altogether.

35. In so far as filing of returns by salaried persons having agricultural income is concerned, the Committee note that such persons are required to file their tax returns either in Form 2 or in Form 2D. In this connection, they note that the requirement of the Cash Flow Statement has been specified in Form 2 for Assessment Year 2006-07 while Form 2D does not require the assessee to fill up Cash Flow Statement, which will lead to more confusion in the minds of those persons with agricultural income. The Committee are of the opinion that prior to introduction of Form 2F, all categories of salaried taxpayers were used to filling their returns in Form No. 2D. However as of now, this category has been split into two has salaried persons not having profits and gains from business, Capital gains and agricultural income and more than one house property, are now required to file their returns in Form 2F and persons having agricultural income are required to use Form 2 or 2D. The Department have further complicated the situation by stating that persons not having income under the head 'profits and gains of

business and profession' can also use Form 3. The Committee find this very confusing and feel that the system which hitherto existed required all salaried assesseees to fill up Form 2D or 3E, and was quite convenient, which should not have been disturbed.

36. The Committee have been given to understand that one of the main reasons for replacing Form No. 2E with Form No. 2F was that there was insufficient space given in various columns thereof, which made it difficult for the taxpayers to fill in the details required. The Committee are of the opinion that this particular aspect can be taken care of with just expanding, space-wise, the existing format of Form 2E.

37. The Committee with particular reference to the new Form 2F are also of the view that the new Form 2F seems to be quite cumbersome and lengthy, fit enough to be called 'kathin' instead of an improved version of the erstwhile 'Naya saral' Form. Besides, the Committee are also convinced that all the taxpayers in the country are not yet suitably equipped to file their returns online. In addition, keeping in view the fact that the computerization project of the Department is not yet complete, the Committee are doubtful as to whether the Department itself is fully equipped to scrutinize the returns filed online by the taxpayers. Overall the Committee remain unconvinced about the reason and justification for introducing the new Form 2F, particularly the need for a Cash Flow Statement. Therefore, they recommend that in light of the apprehensions expressed, the Ministry should make efforts to update the earlier Form 2E by providing more columns/space in it, instead of introducing another Form, as well as do away with the provision of a Cash Flow Statement in the Return Forms 2, 2F and 3 in order to serve the taxpayers in a befitting manner.

38. The Committee upon examining the various return forms, are of the view that the option for certain categories of assesseees to file their tax returns in more than one form, may lead to confusion among the public which is neither in the interest of better tax compliance nor public at large. The Committee, therefore, emphasize on the need for reducing and rationalising the number of return forms with a view to arrive at minimum and specific returns forms applicable for different categories of tax assessess.

NEW DELHI;
16 November, 2006
25 Kartika, 1928 (Saka)

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

MINUTES OF THE THIRTIETH SITTING OF
STANDING COMMITTEE ON FINANCE

The Committee sat on Monday, 12th June, 2006 from 1100 to 1210 hrs. and 1225 to 1340 hrs.

PRESENT

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

MEMBERS

Lok Sabha

2. Shri Bhartruhari Mahtab
3. Shri A. Krishnaswamy
4. Dr. Rajesh Kumar Mishra
5. Shri Madhusudan Mistry
6. Shri Jyotiraditya Madhavrao Scindia
7. Shri M.A. Kharabela Swain
8. Shri Vijoy Krishna

Rajya Sabha

9. Shri M. Venkaiah Naidu
10. Shri Yashwant Sinha
11. Shri Mangani Lal Mandal
12. Shri Santosh Bagrodia
13. Shri Raashid Alvi

SECRETARIAT

1. Shri A. Mukhopadhyay — *Joint Secretary*
2. Shri S.B. Arora — *Deputy Secretary*

Part I

(1100 to 1210 hrs.)

** ** * **
** ** * **

Part II
(1225 to 1340 hrs.)

WITNESSES

Ministry of Finance (Department of Revenue)

1. Ms. M.H. Kherawala, Chairman (CBDT)
2. Shri J.G. Pandese, Member, CBDT
3. Ms. Baljeet Matyani, Member, CBDT
4. Shri Arun Bhargava, Member, CBDT
5. Shri S.S. Gandhi, DGIT (Systems)
6. Ms. Anita Kapoor, Joint Secretary (TPL-I), CBDT
7. Shri Arbind Modi, Joint Secretary (TPL-II), CBDT
8. Shri Sharat Chandra, Director (TPL-IV), CBDT
9. Shri D.P. Semwal, Director (TPL-III), CBDT
10. Ms. Pragya Sahay Saxena, Director (TPL-II), CBDT
11. Ms. Monica Bhatia, Director (TPL-I), CBDT
12. Shri Pankaj Jindal, OSD (TPL-IV), CBDT

2. At the outset, the Chairman while welcoming the representatives of the Ministry of Finance, Department of Revenue, Central Board of Direct Taxes (CBDT) to the sitting of the Committee, took exception to the fact that the Ministry were not represented by any officer during the meeting. Then the Chairman invited their attention to Direction 55 of the Directions by the Speaker, Lok Sabha.

3. The Committee then took oral evidence of the representatives regarding introduction of new form for filing of income tax return. The Chairman then asked the representatives to furnish written notes on the issues on which clarifications were sought by the Members within a period of ten days.

4. The evidence was concluded.

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

The witnesses then withdrew

The Committee then adjourned.

MINUTES OF THE THIRTY-FOURTH SITTING OF
STANDING COMMITTEE ON FINANCE

The Committee sat on Thursday, 27th July, 2006 from 1500 to
1600 hrs. and 1615 to 1715 hrs.

PRESENT

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

MEMBERS

Lok Sabha

2. Shri Bhartruhari Mahtab
3. Shri Shyama Charan Gupta
4. Shri A. Krishnaswamy
5. Shri Madhusudan Mistry
6. Shri Rupchand Pal
7. Shri Shriniwas D. Patil
8. Shri Lakshman Seth
9. Shri M.A. Kharabela Swain

Rajya Sabha

10. Shri Santosh Bagrodia

SECRETARIAT

1. Shri A. Mukhopadhyay — *Joint Secretary*
2. Shri S.B. Arora — *Deputy Secretary*
3. Smt. Anita B. Panda — *Under Secretary*

Part I

(1500 to 1600 hours)

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Part II
(1615 to 1715 hours)

WITNESSES

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4.	**	**	**	**

The witness then withdrew.

Thereafter, the Committee unanimously selected a new subject, namely "Introduction of new income tax return form-2F" for detailed examination and report.

A verbatim record of proceedings has been kept.

The Committee then adjourned.

MINUTES OF THE FIFTH SITTING OF STANDING
COMMITTEE ON FINANCE

The Committee sat on Tuesday, 19th September, 2006 from 1030 to
1150 hours and 1210 to 1330 hrs.

PRESENT

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

MEMBERS

Lok Sabha

2. Shri Gurudas Dasgupta
3. Shri Shyama Charan Gupta
4. Shri A. Krishnaswamy
5. Shri Rupchand Pal
6. Shri Jyotiraditya Madhavrao Scindia
7. Shri A.R. Shaheen
8. Shri M.A. Kharabela Swain
9. Shri Bhal Chand Yadav

Rajya Sabha

10. Shri Santosh Bagrodia
11. Shri M. Venkaiah Naidu
12. Shri Yashwant Sinha
13. Shri Mahendra Mohan
14. Shri Chittabrata Majumdar
15. Shri Mangani Lal Mandal
16. Shri C. Ramachandraiah

SECRETARIAT

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

Part I

(1030 to 1150 hours)

2.	**	**	**	**
3.	**	**	**	**
4.	**	**	**	**

Part II

(1210 to 1330 hours)

WITNESSES

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

Shri K.M. Chandraskhekar, Revenue Secretary

Central Board of Direct Taxes (CBDT)

1. Shri R.R. Singh, Member (L)
2. Ms. Baljeet Matyani, Member (P&V)
3. Shri Arun Bhargava, Member (IT)
4. Shri R. Prasad, Member (R&V)
5. Shri S.S. Gandhi, DGIT (Systems)
6. Shri Arvind Modi, JS (TPL-II)
7. Shri Sharat Chandra, Director (TPL-IV)

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

3. Then, the Revenue Secretary briefed the Committee about certain aspects of the changes that have been made in the Income Tax Return Forms. The Members asked clarificatory questions which were replied to by the representatives. The Chairman, then, directed the representatives to furnish a consolidated version of the written replies consisting of information with reference to the queries raised by the Members, which was not readily available with them, as well as the verbal replies given by the representatives during the sitting of the Committee.

4. The briefing was concluded.

The witness then withdrew.

A verbatim record of proceedings has been kept.

The Committee then adjourned.

MINUTES OF THE NINTH SITTING OF STANDING
COMMITTEE ON FINANCE

The Committee sat on Friday, 27th October, 2006 from 1030 to 1145 hrs. and 1200 to 1230 hrs.

PRESENT

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

MEMBERS

Lok Sabha

2. Shri Gurudas Dasgupta
3. Shri Vijoy Krishna
4. Shri Bhartruhari Mahtab
5. Shri Madhusudan Mistry
6. Shri Rupchand Pal
7. Shri Prakash Paranjpe
8. Shri P.S. Gadhavi
9. Shri A.R. Shaheen

Rajya Sabha

10. Shri Raashid Alvi
11. Shri Mahendra Mohan
12. Shri Chittabrata Majumdar
13. Shri Mangani Lal Mandal
14. Shri C. Ramachandraiah

SECRETARIAT

1. Shri A. Mukhopadhyay — *Joint Secretary*
2. Shri T.G. Chandrasekhar — *Under Secretary*
3. Smt. Anita B. Panda — *Under Secretary*

Part I
(1030 to 1145 hrs.)

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| 3. ** | ** | ** | ** |
| 4. ** | ** | ** | ** |

Part II
(1200 to 1230 hrs.)

5. The Committee took up for consideration the draft reports on (i) Action Taken by the Government on the recommendations contained in the 33rd Report on "Widening of Tax Base and Evasion of Tax", and (ii) Introduction of new Income Tax Return Forms. The Committee after deliberation, adopted the reports with the modifications/ amendments shown in *Annexure-I and Annexure-II* respectively.

6. The Committee authorized the Chairman to finalise the reports in the light of the amendments/suggestions made by the Members and also to make consequential verbal changes and present the same to Hon'ble Speaker/both the Houses of Parliament.

The Committee then adjourned.

ANNEXURE II

[MODIFICATIONS/AMENDMENTS MADE BY STANDING
COMMITTEE ON FINANCE IN THEIR DRAFT REPORT ON
SUBJECT "INTRODUCTION OF NEW INCOME TAX FORMS"
AT THEIR SITTING HELD ON 27 OCTOBER, 2006]

Page No. 17
Para No. 34
Last line from below

After

'...include Cash Flow Statement in the
Return Forms'.

Insert

Last, but not the least, the Committee
are of the opinion that once the income
is taxed, utilization of taxed income by
the assessee should not be the concern
of the Income Tax Department.

FORTY-FIRST REPORT
STANDING COMMITTEE ON FINANCE
(2006-2007)

(FOURTEENTH LOK SABHA)

MINISTRY OF FINANCE
(DEPARTMENT OF REVENUE)

INTRODUCTION OF NEW INCOME TAX
RETURN FORMS

Presented to Lok Sabha on 28.11.2006

Laid in Rajya Sabha on 28.11.2006



LOK SABHA SECRETARIAT
NEW DELHI

November, 2006/Kartika, 1928 (Saka)

COF No. 41

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COMPOSITION OF STANDING COMMITTEE ON
FINANCE (2006-2007)

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

MEMBERS

Lok Sabha

2. Shri Jaswant Singh Bishnoi
3. Shri Gurudas Dasgupta
4. Shri Shyama Charan Gupta
5. Shri Vijoy Krishna
6. Shri A. Krishnaswamy
7. Dr. Rajesh Kumar Mishra
8. Shri Bhartruhari Mahtab
9. Shri Madhusudan Mistry
10. Shri Rupchand Pal
11. Shri Prakash Paranjpe
12. Shri P. S. Gadhavi¹
13. Shri R. Prabhu
14. Shri K.S. Rao
15. Shri Magunta Sreenivasulu Reddy
16. Shri Jyotiraditya Madhavrao Scindia
17. Shri Lakshman Seth
18. Shri A.R. Shaheen
19. Shri G.M. Siddeswara
20. Shri M.A. Kharabela Swain
21. Shri Bhal Chand Yadav

¹Nominated to this Committee *w.e.f.* 31.8.2006 *vice* Shri Raosaheb Danve Patil.

Rajya Sabha

22. Shri Santosh Bagrodia
23. Shri Raashid Alvi
24. Smt. Shobhana Bhartia
25. Shri M. Venkaiah Naidu
26. Shri Yashwant Sinha
27. Shri Mahendra Mohan
28. Shri Chittabrata Majumdar
29. Shri S.P.M. Syed Khan
30. Shri Mangani Lal Mandal
31. Shri C. Ramachandraiah

SECRETARIAT

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

INTRODUCTION

I, the Chairman, Standing Committee on Finance, having been authorised by the Committee to submit the Report on their behalf present this Forty-First Report on the subject 'Introduction of New Income Tax Return Forms'.

2. At their sitting held on 12 June, 2006 the Ministry of Finance (Department of Revenue) briefed the Committee on the subject 'Introduction of New Income Tax Return Forms'. The Committee, at their sitting held on 27th July, 2006 selected the subject 'Introduction of New Income Tax Return Forms' for examination and report. The Committee took oral evidence of the representatives of the Ministry of Finance (Department of Revenue) on 19 September, 2006. At their sitting held on 27 October, 2006, the Committee considered and adopted the draft report.

3. The Committee authorised the Chairman to finalise the Report by taking into consideration the suggestions/modifications suggested by some of the members during the sitting.

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

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

NEW DELHI;
16 November, 2006
25 Kartika, 1928 (Saka)

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