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**STANDING COMMITTEE  
ON FINANCE  
(2007-08)**

**FOURTEENTH LOK SABHA**

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

*[Action taken by the Government on the Recommendations/Observations  
contained in the Forty-First Report of the Standing Committee on  
Finance on Introduction of New Income Tax Return Forms]*

**SIXTY-FOURTH REPORT**



**LOK SABHA SECRETARIAT  
NEW DELHI**

*November, 2007 / Agrahayana, 1929 (Saka)*

## INTRODUCTION

I, the Chairman of the Standing Committee on Finance, having been authorized by the Committee to present the Report on their behalf, present this Sixty-fourth Report on action taken by Government on the recommendations contained in the Forty-first Report of the Committee (Fourteenth Lok Sabha) on "Introduction of New Income Tax Return Forms".

2. The Forty-first Report was presented to Lok Sabha and laid in Rajya Sabha on 28th November, 2006. Replies indicating action taken on all the recommendations contained in the Report were furnished by the Government on 11 September, 2007.

3. The Committee considered and adopted this Report at their sitting held on 28 November, 2007.

4. An analysis of action taken by Government on the recommendations contained in the Forty-first Report of the Committee is given in the *Appendix*.

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

NEW DELHI;  
28 November, 2007  
7 Agrahayana, 1929 (Saka)

ANANTH KUMAR,  
*Chairman,*  
*Standing Committee on Finance.*

## CHAPTER I

### REPORT

This Report of the Standing Committee on Finance deals with action taken by Government on the recommendations/observations contained in their Forty-first Report on the subject "Introduction of New Income Tax Return Forms" which was presented to Lok Sabha/Laid in Rajya Sabha on 28 November, 2006.

2. Observations/recommendations of the Committee were in paras from 29 to 38 of the report. It is observed from the action taken replies received from the Government that all the observations/recommendations contained in the Report have been accepted by the Government.

3. **The Committee are glad to note that, as recommended by the Committee, the requirement of furnishing cash-flow statement in the Income Tax returns has been dispensed with and the old forms have been substituted with new return forms for the assessment year 2007-08. In the new return forms, the tax-payer has only to indicate information relating to details of certain specified high value transactions entered into during the relevant financial year. The Committee hope that the spirit of the Committee's recommendation will be kept in view in future to ensure that filling up of ITR forms is unexacting and there is ease of compliance.**

## CHAPTER II

### RECOMMENDATIONS/OBSERVATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT

#### **Recommendation Nos. 29, 30 & 31**

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 tax-payers to file their return 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 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 tax-payers 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 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 aggregate of the outgoings and the cash or bank balance at the end of the year. Further, to 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 tax-payers filing return in Form No. 2, 3 or 2F for the assessment year 2006-07 to fill out the Cash Flow Statement.

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 tax-payer is expected to file his

tax return, the Committee considered it a matter requiring further attention. Accordingly, they examined this issue in detail.

The Form 2F is a four page form seeking information from the tax-payers 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.

#### **Reply of the Government**

The observations of the Hon'ble Committee have been taken into account while designing the new income-tax return forms. The details of the new forms are given against paragraph 32 and 33.

[F.No. H-11013/12/2006-Parl. dt. 11.7.2007]

#### **Recommendation Nos. 32 & 33**

The Committee are aware that the concern of the public focused 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 verifications of this information. To avoid issuing of large number of letters to such tax-payers whose expenditure 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 the 'Cash Flow Statement' in the Returns. The Department have also taken the stand that is "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 tax-payers and that only 2% of the total returns filed in this category are taken up for scrutiny by the Department.

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 tax-payers 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.

### **Reply by the Government**

*Vide* notification No. 762(E) dated 14th May, 2007, the Central Board of Direct Taxes have substituted the old Forms, including Form 2F, by the following eight new return forms for the Assessment Year 2007-08, under a new series:

- (i) ITR-1—return of income for individuals having salary/pension/family pension and interest income and no other income.
- (ii) ITR-2—return of income for Individuals and Hindu Undivided Families (HUFs) having income from any source except from business or profession.
- (iii) ITR-3—return of income for Individuals and HUFs being partners in firms and not having proprietary business or profession.
- (iv) ITR-4—return of income for individual and HUFs having proprietary business or profession.
- (v) ITR-5—combined form for return of income and fringe benefits for Firms/Association of Persons/Body of Individuals.
- (vi) ITR-6—combined form for return of income and fringe benefits for Companies.
- (vii) ITR-7—combined form for return of income and fringe benefits for Charitable/religious trusts, political parties and other non-profit organizations.
- (viii) ITR-8—stand alone form for return of fringe benefits for persons who are not liable to file return of income but are liable to file return of fringe benefits.

All the above returns forms, with the exception of ITR-7, have been made annexure-less. The tax-payer does not have to furnish

documents, statements, receipts, certificates, reports of audit along with the return of income. Further, e-filing of returns for all companies and also for firms liable to audit under section 44AB has been made mandatory. The requirement of furnishing cash-flow statement has also been dispensed with in the new forms.

In these new series of returns, the taxpayer has only to indicate information relating to details of certain (*i.e.* eight) specified 'high-value' transactions entered into during the relevant financial year. The details of the transactions, which are to be furnished by the tax-payers, correspond to the information received by the Department from designated third parties by way of 'Annual Information Returns'. The relevant schedule *i.e.*, Schedule-AIR has been incorporated in forms-ITR-1, ITR-2, ITR-3 and ITR-4, applicable to individuals and HUFs.

[F.No. H-11013/12/2006-Parl., dt. 11.7.2007]

#### **Recommendation No. 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 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 field 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 percent 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, utilization 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.

#### **Reply by the Government**

As stated above, the Form No. 2F, Form no. 2 and Form No. 3 have been substituted by the New Forms notified for assessment year 2007-08. The new Forms do not seek information on the cash-flow of the tax payer.

[F.No. H-11013/12/2006-Parl., dt. 11.7.2007]

#### **Recommendation No. 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 the 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 filing their returns in Form No. 2D. However as of now, this category has been split into two as 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 person 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 assessees to fill up Form 2D or 2E, and was quite convenient, which should not have been disturbed.

#### **Reply of the Government**

In view of the recommendations of the hon'ble Committee, new series of return forms have been notified, depending upon the source of income of the tax payer. For individuals and HUFs, four return forms namely ITR-1 to ITR-4 have been notified. The return Form ITR-1 is meant for individuals deriving income from salary/pension/



family pension and interest income and no other income. Two versions of ITR-1 are available—a two-page ITR-1 and a three-page ITR-1; the latter providing for expanded space in various columns to enable the tax payers fill up the required details.

Similarly, the return Form ITR-2 is meant for—Individuals and Hindu Undivided Families (HUFs) having income from any source except from business or profession.

[F.No. H-11013/12/2006-Parl., dt. 11.7.2007]

#### **Recommendation No. 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.

#### **Reply by the Government**

In view of the recommendations of the Hon'ble Committee, new series of Income-tax return forms have been designed providing for adequate space to fill up the necessary details.

[F.No. H-11013/12/2006-Parl., dt. 11.7.2007]

#### **Recommendation No. 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 computerisation project of the Department is not yet complete, the Committee are doubtful as to whether the Department itself is fully equipped to scrutinise 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.

### **Reply of the Government**

The new forms have been notified keeping in view the recommendation of the Hon'ble Committee. Further, electronic filing of tax returns has been made mandatory only in the case of companies and firms liable to audit under section 44AB. Similarly, in the case of Charitable Trusts and Institutions it is mandatory to file paper return. In all other cases, tax payers have a menu of choice in the manner in which the return is filed. In such cases, electronic filing is only one of the many options.

[F.No. H-11013/12/2006-Parl., dt. 11.7.2007]

### **Recommendation No. 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 rationalizing the number of return forms with a view to arrive at minimum and specific returns forms applicable for different categories of tax assesseees.

### **Reply of the Government**

Keeping in view the recommendations of the Committee, the Government have designed the new Forms so as to correspond to the sources of income of a tax payer.

[F.No H-11013/12/2006-Parl., dt. 11.7.2007]

**CHAPTER III**

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

—Nil—

**CHAPTER IV**

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

—Nil—

**CHAPTER V**

RECOMMENDATIONS/OBSERVATIONS IN RESPECT OF WHICH  
REPLIES OF THE GOVERNMENT ARE STILL AWAITED

—Nil—

NEW DELHI;  
28 November, 2007  
7 Agrahayana, 1929 (Saka)

ANANTH KUMAR,  
*Chairman,*  
*Standing Committee on Finance.*

MINUTES OF THE NINTH SITTING OF THE STANDING  
COMMITTEE ON FINANCE

The Committee sat on Wednesday, the 28th November, 2007 from 1600 hrs. to 1700 hrs. in Committee Room No. 'E', Parliament House Annexe, New Delhi.

PRESENT

Shri Ananth Kumar — *Chairman*

MEMBERS

*Lok Sabha*

2. Shri Gurudas Dasgupta
3. Shri Bhartruhari Mahtab
4. Shri Rupchand Pal
5. Shri K.S. Rao
6. Shri Magunta Sreenivasulu Reddy
7. Shri M.A. Kharabela Swain

*Rajya Sabha*

8. Shri Santosh Bagrodia
9. Shri Mangani Lal Mandal
10. Shri S. Anbalagan
11. Shri Moinul Hassan

SECRETARIAT

1. Shri A. Louis Martin — *Joint Secretary*
2. Shri T.G. Chandrasekhar — *Deputy Secretary*
3. Shri G. Srinivasulu — *Deputy Secretary-II*

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

3. The Committee, then took up the following draft reports for consideration:

- (i) Draft Action taken Report on the recommendations/ observations contained in the 51st Report on Demands for Grants (2007-08) of the Ministry of Finance (Departments of Economic Affairs, Expenditure and Disinvestment);

- (ii) Draft action taken Report on the recommendations/ observations contained in the 54th Report on Demands for Grants (2007-08) of the Ministry of Statistics and Programme Implementation.
- (iii) Draft action taken Report on the recommendations/ observations contained in the 41st Report on 'Introduction of New Income Tax Return Form';
- (iv) Draft action taken Report on the recommendations/ observations contained in the 52nd Report on Demands for Grants (2007-08) of the Ministry of Finance (Department of Revenue);
- (v) Draft action taken Report on the recommendations/ observations contained in the 53rd Report on Demands for Grants (2007-08) of the Ministry of Planning;
- (vi) Draft action taken Report on the recommendations/ observations contained in the 55th Report on Demands for Grants (2007-08) of the Ministry of Corporate Affairs; and
- (vii) Draft action taken Report on the recommendations/ observations contained in the 43rd Report on 'Efficacy of Reform Process in Capital Market—Recent IPO Scam'.

The Committee adopted the reports at (i), (ii) and (iii) above without any amendment and the reports at (iv), (v), (vi) and (vii) above with modifications as shown in the annexure.

4. The Committee then authorized the Chairman to finalise the reports in the light of the modifications made and present the same to Parliament.

*The Committee then adjourned.*

## APPENDIX

(Vide Para 3 of the Introduction)

### ANALYSIS OF THE ACTION TAKEN BY GOVERNMENT ON THE RECOMMENDATIONS CONTAINED IN THE FOURTY-FIRST REPORT OF THE STANDING COMMITTEE ON FINANCE (FOURTEENTH LOK SABHA) ON 'INTRODUCTION OF NEW INCOME TAX RETURN FORMS'

	Total	% of Total
(i) Total number of recommendations	1	
(ii) Recommendations/observations which have been accepted by the Government [Vide Recommendations at Sl. No. 1 (para 29-38)]	1	100%
(iii) Recommendations/observations which the Committee do not desire to pursue in view of the Government's replies [Vide Recommendations at Sl. No. Nil]	Nil	00.00%
(iv) Recommendations/observations in respect of which replies of the Government have not been accepted by the Committee [Vide Recommendations at Sl. No. Nil]	Nil	00.00%
(v) Recommendations/observations in respect of which final replies of the Government is still awaited [Vide Recommendations at Sl. No. Nil]	Nil	00.00%



SIXTY-FOURTH REPORT  
STANDING COMMITTEE ON FINANCE  
(2007-08)

(FOURTEENTH LOK SABHA)

MINISTRY OF FINANCE  
(DEPARTMENT OF REVENUE)

*[Action taken by the Government on the Recommendations/Observations  
contained in the Forty-First Report of the Standing Committee on  
Finance on Introduction of New Income Tax Return Forms]*

*Presented to Lok Sabha on 4.12.2007*

*Laid in Rajya Sabha on 4.12.2007*



LOK SABHA SECRETARIAT  
NEW DELHI

*November, 2007/Agrahayana, 1929 (Saka)*

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COMPOSITION OF STANDING COMMITTEE ON  
FINANCE (2007-2008)

Shri Ananth Kumar — *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
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11. Shri Prakash Paranjpe
12. Shri P.S. Gadhavi
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. Siddeshwara
20. Shri M.A. Kharabela Swain
21. Shri Bhal Chand Yadav

*Rajya Sabha*

22. Shri Santosh Bagrodia
23. Shri Raashid Alvi
24. Shri M. Venkaiah Naidu

25. Shri S.S. Ahluwalia
26. Shri Mahendra Mohan
27. Shri Mangani Lal Mandal
28. Shri C. Ramachandraiah
29. Shri Vijay J. Darda
30. Shri S. Anbalagan
31. Shri Moinul Hassan

SECRETARIAT

- |                            |   |                                |
|----------------------------|---|--------------------------------|
| 1. Dr. (Smt.) P.K. Sandhu  | — | <i>Additional Secretary</i>    |
| 2. Shri A. Louis Martin    | — | <i>Joint Secretary</i>         |
| 3. Shri S.B. Arora         | — | <i>Director</i>                |
| 4. Shri T.G. Chandrasekhar | — | <i>Deputy Secretary</i>        |
| 5. Smt. Archana Srivastava | — | <i>Sr. Executive Assistant</i> |