

68

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

FOURTEENTH LOK SABHA

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

**DEMANDS FOR GRANTS
(2008-09)**

SIXTY-EIGHTH REPORT



**LOK SABHA SECRETARIAT
NEW DELHI**

April, 2008 / Chaitra, 1930 (Saka)

SIXTY-EIGHTH REPORT
STANDING COMMITTEE ON FINANCE
(2007-2008)

(FOURTEENTH LOK SABHA)

MINISTRY OF FINANCE
(DEPARTMENT OF REVENUE)

DEMANDS FOR GRANTS
(2008-09)

Presented to Lok Sabha on 16.4.2008

Laid in Rajya Sabha on 15.4.2008



LOK SABHA SECRETARIAT
NEW DELHI

April, 2008/Chaitra, 1930 (Saka)

COF No. 68

Price : Rs. 46.00

© 2008 BY LOK SABHA SECRETARIAT

Published under Rule 382 of the Rules of Procedure and Conduct of Business in Lok Sabha (Twelfth Edition) and printed by Jainco Art India, New Delhi.

CONTENTS

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

PART I

BACKGROUND ANALYSIS

I. Implementation of the Committee's Recommendation	1
II. Budgetary Allocation.....	2
III. Collection of taxes by Private Sector Banks	6
IV. Bogus Refund Claims	8
V. Timely Refunds	9
VI. Acquisition of anti-smuggling equipment-investments	10
VII. Rewards	12
VIII. Acquisition of ready-built office accommodation.....	15
IX. Shortage of Staff	17
X. Comprehensive Computerisation of Income Tax Department	19
XI. Tax Code	23
XII. Anonymous Donations	23
XIII. Benami Act	25

PART II

Recommendations/Observations of the Committee	26
---	----

APPENDICES

Minutes of the sitting of the Committee held on 26th March, 2008	30
Minutes of the sitting of the Committee held on 10th April, 2008	33

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
10. Shri Rupchand Pal
11. Shri P.S. Gadhavi
12. Shri R. Prabhu
13. Shri K.S. Rao
14. Shri Magunta Sreenivasulu Reddy
15. Shri Lakshman Seth
16. Shri A.R. Shaheen
17. Shri G.M. Siddeshwara
18. Shri M.A. Kharabela Swain
- #19. Shri Suresh Prabhakar Prabhu
20. Vacant
21. Vacant

#Nominated to this Committee *w.e.f.* 24.3.2008.

Rajya Sabha

22. Shri Raashid Alvi
23. Shri M. Venkaiah Naidu
- *24. Shri S.S. Ahluwalia
25. Shri Mahendra Mohan
26. Shri C. Ramachandraiah
27. Shri Vijay J. Darda
28. Shri S. Anbalagan
29. Shri Moinul Hassan
30. Vacant
31. Vacant

SECRETARIAT

1. Dr. (Smt.) P.K. Sandhu — *Additional Secretary*
2. Shri A. Louis Martin — *Joint Secretary*
3. Shri A.K. Singh — *Director*
4. Shri G. Srinivasulu Gunda — *Deputy Secretary-II*

*Nominated to this Committee *w.e.f.* 6.9.2007 *vice* Shri Yashwant Sinha.

INTRODUCTION

I, the Chairman, Standing Committee on Finance (2007-08), having been authorised by the Committee to present the Report on their behalf, present this Sixty-Eighth Report of the Standing Committee on Finance (2007-08) on the 'Demands for Grants (2008-09) of the Ministry of Finance (Department of Revenue)'.

2. The Committee took oral evidence of the representatives of the Ministry of Finance (Department of Revenue) on 26th March, 2008.

3. The Committee considered and adopted the Report at their sitting held on 10th April, 2008. Minutes of the related sittings are given in Appendix to the Report.

4. The Committee wish to express their thanks to the representatives of the Ministry of Finance (Department of Revenue) for appearing before the Committee and furnishing the material and information which the Committee desired in connection with the examination of the Demands for Grants (2008-09).

NEW DELHI;
11 April, 2008
22 Chaitra, 1930 (Saka)

ANANTH KUMAR,
Chairman,
Standing Committee on Finance.

REPORT

PART I

I. IMPLEMENTATION OF THE COMMITTEE'S RECOMMENDATIONS

The 52nd Report of the Standing Committee on Finance (Department of Revenue) on 'Demands for Grants-2007-08' was presented to Lok Sabha on 28th April, 2007 and laid in Rajya Sabha on 3rd May, 2007. The Report contained 10 recommendations/ observations.

1.2 In compliance of the Direction 73A of the Directions by the Speaker, the Minister of Finance made a statement in the House on 30th November, 2007 giving the status of implementation of various recommendations/observations made by the Committee in their 52nd Report. An analysis of the Minister's statement showed that 5 recommendations fully and 3 recommendations partially have been accepted by the Government. Out of these, only 2 recommendations fully and 3 recommendations partially were found implemented by the Government and remaining 5 (fully) and 1 (partially) recommendations were under process for implementation.

1.3 On the basis of Action Taken Replies received from the Ministry of Finance (Department of Revenue) on the above mentioned Report, the Committee presented their 60th Report (Action Taken Report) to the Parliament on 4th December, 2007. The Committee in their 60th Report have commented on the action taken replies furnished by the Ministry in respect of recommendations contained in the 52nd Report at Para Nos. 22—27, 52—55, 66—70, 78—81, 91-92, 107—110, 116-117, 121-122, 128 and 135. 8 recommendations/observations (5 fully and 3 partially) at Para Nos. 22—27, 66—70, 78—80, 91, 107—109, 121-122, 128 and 135 were accepted by the Ministry. Recommendations/Observations at Para Nos. 81, 92 and 107-110 were reiterated by the Committee as per replies of the Ministry thereon were not found satisfactory by the Committee.

II. BUDGETARY ALLOCATION

Ministry of Finance—Department of Revenue

The Department of Revenue functions under the overall direction and supervision of the Secretary (Revenue). It exercises control in respect of matters relating to all the Direct and Indirect Union Taxes through two statutory Boards namely, the Central Board of Direct Taxes (CBDT) and the Central Board of Excise and Customs (CBEC). Each Board is headed by a Chairman who is also *ex-officio* Special Secretary to the Government of India. Matters relating to the levy and collection of all Direct taxes are looked after by the CBDT whereas those relating to levy and collection of Customs and Central Excise duties and other Indirect taxes fall within the purview of the CBEC. The two Boards were constituted under the Central Board of Revenue Act, 1963. At present, the CBDT has six Members and the CBEC has five Members.

2.2 The Department of Revenue administers the following Acts:—

1. Income Tax Act, 1961;
2. Wealth Tax Act, 1957;
3. Expenditure Tax Act, 1987;
4. Benami Transactions (Prohibition) Act, 1988;
5. Super Profits Act, 1963;
6. Companies (Profits) Sur-tax Act, 1964;
7. Compulsory Deposit (Income Tax Payers) Scheme Act, 1974;
8. Chapter VII of Finance (No.2) Act, 2004 (Relating to Levy of Securities Transactions Tax);
9. Chapter VII of Finance (No. 2) Act, 2005 (Relating to Levy of Banking Cash Transaction Tax)
10. Chapter V of Finance Act, 1994 (Relating to Service Tax);
11. Central Excise Act, 1944 and related matters;
12. Customs Act, 1962 and related matters;
13. Medicinal and Toilet Preparations (Excise Duties) Act, 1955;
14. Central Sales Tax Act, 1956;
15. Narcotic Drugs and Psychotropic Substances Act, 1985;
16. Prevention of Illicit Traffic in Narcotic Drugs and Psychotropic Substances Act, 1988;

17. Smugglers and Foreign Exchange Manipulators (Forfeiture of Property) Act, 1976;
18. Indian Stamp Act, 1899 (to the extent falling within jurisdiction of the Union);
19. Conservation of Foreign Exchange and Prevention of Smuggling Activities Act, 1974;
20. Prevention of Money Laundering Act, 2002.

The administration of the Acts mentioned at Sl.Nos. 3, 5, 6 and 7 is limited to the cases pertaining to the period when these laws were in force.

2.3 The Department looks after the matters relating to the above-mentioned Acts through the following attached/subordinate offices:-

1. Commissionerates/Directorates under Central Board of Excise and Customs;
2. Commissionerates/Directorates under Central Board of Direct Taxes;
3. Central Economic Intelligence Bureau;
4. Directorate of Enforcement;
5. Central Bureau of Narcotics;
6. Chief Controller of Factories;
7. Appellate Tribunal for Forfeited Property;
8. Income Tax Settlement Commission;
9. Customs and Central Excise Settlement Commission;
10. Customs, Excise and Service Tax Appellate Tribunal;
11. Authority for Advance Rulings for Income Tax;
12. Authority for Advance Rulings for Customs and Central Excise;
13. National Committee for Promotion of Social and Economic Welfare;
14. Competent Authorities appointed under Smugglers and Foreign Exchange Manipulators (Forfeiture of Property) Act, 1976 and Narcotic Drugs and Psychotropic Substances Act, 1985;

15. Financial Intelligence Unit, India (FIU-IND); and
16. Income Tax Ombudsman.

2.4 The detailed Demands for Grants of the Ministry of Finance were presented to Lok Sabha on March 14, 2008. The details of the demands of Department of Revenue, Central Board of Direct Taxes (CBDT) and Central Board of Excise & Customs (CBEC) are as under:-

(In crores of Rupees)

Demand No.	Deptt. of Revenue	Revenue	Capital	Total
Demand No. 41:	Deptt. of Revenue Voted:	6196.98	0.82	6197.80
Demand No. 42:	Direct Taxes Voted:	1771.98	203.00	1974.98
Demand No. 43:	Indirect Taxes Voted:	1804.60	315.20	2119.80

2.5 The BE, RE and Actuals for the Demand Nos. 41, 42 & 43 from the year 2005-2006 are as follows:

2005-2006

(Rupees in thousand)

	BE		RE		Actual	
	Plan	Non Plan	Plan	Non Plan	Plan	Non Plan
Demand No. 41	—	5,379,26,00	—	2,831,99,83	—	2,779,58,88
Demand No. 42	—	1,250,00,00	—	1,230,04,00	—	1,209,82,58
Demand No. 43	—	1,648,40,00	—	1,468,50,00	—	1,368,73,85

2006-2007

(Rupees in thousand)

	BE		RE		Actual	
	Plan	Non Plan	Plan	Non Plan	Plan	Non Plan
Demand No. 41	—	3,341,15,00	—	4,449,11,10	—	4,433,06,07
Demand No. 42	—	1,334,00,00	—	1,381,35,00	—	1,353,37,27
Demand No. 43	—	1,714,82,00	—	1,632,70,00	—	1,507,42,31

2007-2008

(Rupees in thousand)

	BE		RE		Actual	
	Plan	Non Plan	Plan	Non Plan	Plan	Non Plan
Demand No. 41	—	5875.86	—	6413.90	—	—
Demand No. 42	—	1532.00	—	1752.42	—	—
Demand No. 43	—	1831.00	—	1829.70	—	—

2008-2009

(Rupees in thousand)

	BE		RE		Actual	
	Plan	Non Plan	Plan	Non Plan	Plan	Non Plan
Demand No. 41	—	6197.82	—	—	—	—
Demand No. 42	—	1975.00	—	—	—	—
Demand No. 43	—	2121.00	—	—	—	—

2.6 In the present Report, the Committee have examined the following issues:-

1. Collection of taxes by Private Sector Banks
2. Bogus Refund Claims
3. Timely Refunds
4. Acquisition of anti-Smuggling Equipment—investments
5. Rewards
6. Acquisition of ready-built office accommodation
7. Shortage of Staff
8. Comprehensive Computerisation of Income Tax Department
9. Tax Code
10. Anonymous Donations
11. Benami Act.

III. COLLECTION OF TAXES BY PRIVATE SECTOR BANKS

There are 239 and 896 branches of private sector banks which are authorized to collect indirect and direct taxes respectively on behalf of the Government of India. At present three private sector banks viz. Axis Bank, HDFC Bank and ICICI Bank and other public sector banks viz. IDBI Bank are authorized to collect direct and indirect taxes.

3.2 The following criteria had been stipulated by RBI in respect of the above Private Sector Banks while authorizing them to collect indirect taxes receipts:

- Continuous profitability for 3 years
- Minimum CRAR of 9 percent
- Net Non-performing Assets (NPA) at not more than 5 percent of the Net Advances.
- Minimum net worth not less than Rs. 200 crore.

3.3 The amounts of indirect taxes collected by Private Sector Commercial Banks for the last five years are as under:

Sl.No.	Bank	Year(Amount in Rs crore)				
		2003-04	2004-05	2005-06	2006-07	2007-08 (upto 11/07)
1	Axis Bank	204.02	1428.60	2738.39	3900.08	2126.17
2	HDFC Bank	53.55	715.02	1964.02	4745.71	4821.80
3	ICICI Bank	28.90	930.99	2141.93	4339.41	2474.84
4	IDBI Bank	180.71	1389.15	2779.79	3414.57	1906.90
	Total	467.18	4463.76	9624.13	16399.77	11329.71

3.4 The Private Sector Banks are to remit Government receipts to RBI, Central Accounts Section (CAS), Nagpur within 3 days (including holidays) of realization of cheques, etc.

3.5 Authorization and de-authorization of banks for collection of Central Excise and Service Tax is done from time to time, as per Central Government Receipts & Payment Rules, 1983 by the Controller General of Accounts in consultation with RBI. The RBI has noticed

that the performance of Private Sector Banks with particular reference to their participation in Government sponsored schemes of Central and State Governments has not been found satisfactory. Accordingly, at present, it is not proposed by the Controller General of Accounts/ RBI to enlarge the existing coverage of the private sector banks with regard to CBEC receipts.

3.6 The Tax collection is to be deposited in Govt. Accounts within T(date of tendering)+3 days including the date of Put through RBI. After that the Penal interest is charged.

3.7 The total amount of direct taxes collected by private sector banks as furnished by the Ministry for the last five years is as under:

		Amt. in crores				
		Year-wise Direct Tax Collection				
S.No.	Name of the Bank	2003	2004	2005	2006	2007
1.	I.D.B.I Bank	-	2137.82	5874.71	9746.43	16810.39
2.	H.D.F.C. Bank	8937.84	12531.47	16362.21	22776.88	36060.98
3.	I.C.I.C.I Bank	-	3792.72	12570.77	17682.9	26480.58
4.	AXIS Bank	-	1300.58	5342.19	9540.79	15742.86

3.8 The Tax collection is to be deposited in Govt. Accounts within T(date of tendering)+3 days including the date of Put through RBI. After that the Penal interest is charged.

3.9 Both Public Sector and Private Sector Banks are presently handling work relating to Direct Taxes collection. Even when Public Sector Bank employees have in the past gone on strike (mostly they go on strike in the crucial months when Department expects higher tax collection), Private Sector Banks have continued to work. This has facilitated collection of taxes and achievement of budget targets in this regard. Further, both public sector and private sector banks have made substantial investments in the software and hardware and have also imparted training to their staff in this regard. It may also not be legally proper to force the assesseees to open accounts with public sector banks only for payment of tax on-line as many of the assesseees (corporate assesseees and 44AB companies) may be availing the credit limits/other loan facilities with private sector banks. Central Board of Direct Taxes is therefore in favour of maintaining the present system of collection by both Public Sector and Private Sector Banks.

IV. BOGUS REFUND CLAIMS

3.10 During the examination of Demands for Grants (2006-07) of Department of Revenue on the issue of bogus claims of refunds stated as follows:—

“Some cases of bogus claim of refunds by filing fictitious returns of income with fictitious TDS certificates have come to the notice of the Government. The quantum of such refund is still under investigation. Criminal proceedings have been initiated by Police and based on the report further administrative action will also be taken.”

3.11 In response to a query as to the total number of cases detected, the amount involved therein and the action taken against the officials/ persons responsible for such bogus claims of refunds for the last five years (year-wise), the Ministry stated as below:

“There are altogether 36 cases in Delhi that have so far come to notice where refunds have been claimed by filing fictitious returns of income and fictitious TDS certificates. Total amount involved in these returns is Rs 3.59 crores (approx.). Criminal proceedings have been instituted by the Economic Offence wing of Delhi Police against one departmental official and three outsiders. The proceedings are pending before the Hon’ble ACMM, Tis Hazari. Departmental proceedings for major penalty against the departmental official have been instituted and are in progress”.

3.12 On the issue of bogus refunds, the Chairman, CBDT during the oral evidence held in connection with the examination of Demands for Grants (2008-09) of Ministry of Finance (Department of Revenue) stated as under:

“There have not been many refund frauds and action is taken in all the refund frauds as and when the frauds are detected. DG (Vigilance) maintains the records of only the officials involved in the refund frauds. Records of the Advocates and Chartered Accountants involved in such cases are maintained with the CCITs, as action is to be taken by the respective CCITs. The complete updated information in respect of all refund frauds could not be given because of the short time period given for preparing the replies.

A case of refund fraud was detected in CCIT, Meerut Charge and the concerned Chartered Accountant was identified and arrested and placed behind bars. Almost the entire amount was recovered. It is expected that refund frauds are further reduced with computerisation”.

V. TIMELY REFUNDS

3.13 In response to a written query as to whether there is any stipulation requiring that refunds are to be made within four months, the Ministry stated *inter alia* as follows:-

“Instructions are issued to the field formations to process the returns within 4 months of receipt of the return. Normally, returns are processed within 4 months of receiving of the return and refunds are issued. Data in respect of refunds which could not be processed within 4 months of filing of return is not maintained separately. All the returns received are compulsorily processed within the statutory time limit. However, some delay is caused due to shortage of manpower and verification of taxes paid. The Income Tax Department is in the process of increasing manpower mostly by filling up vacancy which will further reduce the processing time. The dematerialization of TDS Certificate is already under process and verification will be done electronically. In some cases, refunds are delayed due to reasons attributable to the assessee, like –

- (i) Non-quoting/wrong quoting of PAN number by the assessee.
- (ii) Non-furnishing of bank account details by the assessee.
- (iii) Incorrect/ different addresses given in the Income tax returns.
- (iv) Pending de-duplication of PAN”.

3.14 On being asked to furnish the data on the number of delays in making refunds amount-wise (Rs. 0-5 lac, 5-20 lac, 20-50 lac, 50 lac -1 crore and one crore and above) for the last five years (year-wise), the Ministry in written reply stated as follows:

“Data in respect of number of delays in making refunds amount-wise is not maintained. It is pertinent to mention here that interest paid on refunds as a percentage of refund has drastically reduced from 28.45% in Financial Year 2002-03 to 15.46% in Financial Year 2005-06”.

3.15 When asked to furnish the action taken/proposed to be taken on the recommendations of the Committee contained in the Report on Demands for Grants (2006-07) of Ministry of Finance (Department of Revenue) urged the government to ensure that refunds cheques

invariably reached the assesses within ten days from the date of issue of cheques in order to prevent any chances of corrupt practices on this account. The Ministry responded:—

“Refunds are issued either through ECS or through paper mode at various centres in the country. ECS is not mandatory but it is at the option of the tax payer. Since January 2007 the Refund Banker Pilot Scheme is operational in certain centres for non-corporate tax payers. It is expected that once the Refund Banker Scheme stabilizes the issue of delay in dispatch of refunds would be sorted out.

Instructions have been issued to the field formations to ensure that refund cheques should invariably reach the assesseees within 10 days of issue of cheque”.

VI. ACQUISITION OF ANTI-SMUGGLING EQUIPMENT-INVESTMENTS

3.16 This provision is made for acquiring anti-smuggling equipment (Container Scanners). The Budget Estimates, Revised Estimates and the Actuals incurred for the last five years are given as under :—

Year	BE	RE	Actuals
2004-05	79,50,00,000	26,35,00,000	19,67,84,000
2005-06	100,00,00,000	5,79,00,000	1,05,01,000
2006-07	20,00,00,000	6,00,00,000	4,96,44,000
2007-08	50,00,00,000	15,00,00,000	
2008-09	50,00,00,000		

3.17 In response to a query as to why not only has there been substantial under-utilization to the provisions *vis-a-vis* sharply reduced RE during 2004-05, 2005-06 and 2006-07 but also substantially higher allocations have been made in subsequent years, the Ministry in a written reply stated as follows:—

“Initially, the proposal was for procurement of 15 number of scanners. However, Competent Authority approved procurement of only 2 scanners as a pilot project. Hence, RE in 2004-05 was reduced with reference to approval for 2 scanners and BE for 2005-06 was increased in anticipation of procurement of more scanners after the pilot project. However, approval of Cabinet for procurement of 7 more scanners could be obtained only on 27.10.2006 and RE in 2005-06 had to be reduced. Since various formalities were yet to be completed before procurement of the scanners approved by the Cabinet, RE in 2006-07 was also reduced”.

3.18 On being asked as to whether any action has been taken against the officials responsible for such faulty budgeting, the Ministry replied as follows:—

“Budgetary provisions were made keeping in view the stage of the proposal in the respective years at the time of formulation of the Budget Estimates. As expenditure depends on completion of various formalities related with acquisition and development of sites, completion of contractual formalities, approval by competent authorities and completion of procurement process, it can not be termed as faulty budgeting”.

3.19 During oral evidence of the Ministry of Finance, a question was raised that every year higher Budget provision is kept for acquiring anti-smuggling equipment, which is reduced at the Revised Estimates and that too is not utilised fully, the representatives of the Ministry replied as under :—

“On the anti-smuggling equipment, whether it is laxity, whether it is design, let me assure you that it is not by design. It is not simple scanners. We are looking at x-ray scanners and gamma ray scanners; and this is the controversy, which has been raging. If I might confess with my experience in the Ministry of Home Affairs of the last few years, it is a controversy even raging between two of our public sector undertakings, namely BEL and ECIL. Each operational equipment can have its benefits but there is no clear identity to say which is better. The IB, which is supposed to give advice as to which equipment should go, has not been able to give advice. Nevertheless, we have initiated and we have taken a decision to go ahead with purchase of scanning equipment in addition to what we have. It is not that we do not have any. We are doing more. We will move further forward in this process. But why we were not able to utilise the Budget was essentially because of an inability to decide which particular equipment you go through, and because of the confusion or lack of decision or indecision, which prevailed in the security environment in this matter. But let me assure you that it is not our design to fail”.

3.20 He further added that :—

“The question is none of these is a foolproof system for final determination; and I have seen the functioning of gamma-ray equipment and the x-ray equipment even in the most effective transfer points. You take the point of Singapore to Malaysia. There also, these equipments are really used to identify or signal which particular container or container vehicle is to be examined in detail”.

VII. REWARDS

3.21 The Secret Service Fund administered by Department of Revenue which is utilized for generating information through informers and other means, for providing meaningful intelligence and further development of this intelligence into actionable information. This Fund has been allocated to the agencies like Enforcement Directorate (ED), Financial Intelligence Unit-India (FIU-IND), Central Economic Intelligence Bureau (CEIB), Narcotics Commissioner & Chief Controller of Factories.

3.22 The Budget Estimates, Revised Estimates and the Actuals incurred by the Department of Revenue for the last five years are given as under :—

(Rs. in Lakh)			
Year	BE	RE	Actuals
2004-05	64.27	53.51	34.24
2005-06	63.82	1,00.60	89.20
2006-07	1,34.20	1,30.20	1,14.35
2007-08	1,92.20	84.90	
2008-09	1,92.30		

3.23 When asked about the additional income under the tax net due to the information given by these informers, the Ministry of Finance (Department of Revenue) in their written reply stated as under :—

“This Fund is used for generating information through informers and other means. Information so developed wherein the informers have provided the information has resulted in development of cases involving tax evasion. Some of these cases are:—

- Prevention of money laundering
- Combating financing of terrorism
- Seizure of smuggled electronic goods
- Mis-declaration in the imports
- Fraudulent availment of DEPB benefit by certain exporters
- Mis-declared import of photocopies machines
- Suspected Service Tax violation by property dealers, etc.
- Illegal cultivation of opium”.

3.24 The BE, RE and actuals incurred by CBDT under the Object Head Secret Service Expenditure since 2004-05 is as under:—

Year	BE	RE	Actuals
2004-05	1,50,00,000	1,50,00,000	1,32,25,000
2005-06	1,50,00,000	2,00,00,000	1,97,56, 000
2006-07	3,00,00,000	3,70,00,000	3,42,03,000
2007-08	5,00,00,000	5,00,00,000	3,67,58,000*
2008-09	4,00,00,000		

*upto end of February, 2008

3.25 In response to a query as to the reasons for under utilization of the allocations, the Ministry in a written reply stated as follows:—

“Over the last three years, total number of search warrants executed and total seizure of amount have increased. Accordingly, the actual expenditure under this head has also consistently increased during this period. However, the under utilisation of Rs.28.00 lakh is the consolidated amount of all 16 Director Generals of Income Tax (Investigation). When savings of this amount are seen with reference to the number of offices, the under-utilisation amount per office will be nominal”.

3.26 On the issue of whether the leads given by the informers brought additional income under the tax net, the Ministry in a written reply stated as under:—

“No direct nexus is possible between the amount actually utilized under this head and additional income brought to the tax net. Keeping in view the secrecy and sensitivity involved no data base is maintained centrally regarding identity of informer and details of cases in which he has furnished information. Therefore, it is not possible to specifically quantify the additional income brought under the tax net through the informer”.

3.27 While deposing before the Committee during oral evidence held on 26th March, 2008, Secretary, Department of Revenue, Ministry of Finance have intimated as under:—

“As far as secret service expenditures are concerned, let me assure you that individual cases are monitored but the purpose why we

do not do a centralised accounting situation is that even the individual claimant in a particular case may not be giving you information about the totality of exposure. So, it becomes contentious if you maintain a database. He would say that the entire thing is attributed to his efforts. That is not the case. Secondly, we pay 10 per cent at the first discovery but the balance 90 per cent is paid when the collection of the additional revenue is finalised, which is not necessarily, within the next six months. The process is there; but it takes time. So, a direct co-relation between budget outlay and release of funds from secret funds is not possible. It is also not desirable because there are a number of checks and counter-checks that have to be gone through”.

3.28 This head is meant for Reward to Officers/Staff and informers who help in prevention of evasion of Customs Duties in various field offices under 38 Preventive Commissionerates. The Budget Estimates, Revised Estimates and the Actuals incurred for the last five years are given as under:—

Year	BE	RE	Actuals
2004-05	9,73,35,000	7,54,35,000	3,74,43,000
2005-06	9,23,38,000	8,59,00,000	3,15,73,000
2006-07	6,73,00,000	5,69,95,000	3,00,03,000
2007-08	5,22,00,000	3,20,00,000	
2008-09	5,00,00,000		

3.29 Asked about the reasons as to why despite under-utilisation of the budgetary provisions in the preceding years, substantially higher budgetary allocations have been made for the subsequent years, the Ministry of Finance in their written reply submitted as under:—

“Due to under-utilization of provisions in the preceding years, budgetary allocation during 2006-07 and onwards were made lower than the allocation made in preceding years, although these were higher than actuals of preceding years. Initially, advance reward amounting to 10% of the estimated reward, which is calculated on the basis of 10% of estimated revenue realization, is paid to the employees/informers whose information has helped the realization. After actual realization of revenue, Final Reward constituting 90% of total reward amount is sanctioned by a Committee. Since amount of final reward can not be assessed with certainty in advance, reasonable allocations are made to avoid situation of non-payment of sanctioned reward”.

3.30 The Budget Estimates, Revised Estimates and actuals incurred on Rewards to officers/staff and informers by the Directorate of the Revenue Intelligence and its various zonal officers for the last five years is as under:—

Year	BE	RE	Actuals
2004-05	7,51,00,000	7,20,00,000	7,07,98,000
2005-06	7,51,00,000	7,51,00,000	6,79,66,000
2006-07	8,00,00,000	7,00,00,000	5,66,13,000
2007-08	7,00,00,000	7,00,00,000	
2008-09	7,00,00,000		

3.31 Asked about the reasons as to why higher budgetary allocations have been made inspite of incurring lower Actuals *vis-a-vis* RE, the Ministry of Finance in their written replies submitted as under :—

3.32 The actual are less due to finalization of less number of reward cases than estimated. The actuals during 2004-05 and 2005-06 were 98.33% and 90.50% of RE of respective years. As Directorate of Revenue Intelligence has jurisdiction all over the country with various Zonal Units, utilization of more than 90% allocation in respective years is satisfactory.

VIII. ACQUISITION OF READY BUILT OFFICE ACCOMMODATION

3.33 The head is meant for acquisition of ready built office accommodation for Income Tax Department. The BE, RE and Actuals incurred since 2004-05 is as under:

(Rs. in crore)				
Year	BE	RE	Actuals	Shortfall against budget
2004-05	80,00,00,000	69,00,00,000	35,70,32,000	55%
2005-06	66,00,00,000	18,00,00,000	14,49,73, 000	78%
2006-07	19,00,00,000	7,45,00,000	2,62,75,000	86%
2007-08	1,00,00,000	7,00,00,000		
2008-09	1,98,00,000			

3.34 In response to queries as to why (i) despite lower Actuals *vis-a-vis* even downwardly revised allocations at RE stage in the preceding years higher allocations have been made in the subsequent years; and (ii) whether any action has been taken against the officials responsible for such faulty budgeting. The Ministry in their reply stated *inter alia* as under:—

“The provision for BE is made on the basis of the proposals received from the field formations. Before a proposal is finally sanctioned, many procedural formalities like negotiation of price and obtaining requisite certificate of valuation etc. from CPWD takes considerable time. While Budget provision is made for such proposals under consideration, some of these are finally not sanctioned for want of requisite clearances from CPWD or other reasons leading to lower expenditure. Therefore, the question of taking action against the officials does not arise”.

3.35 When asked as to why the actuals fell short of stipulated reduced RE during 2006-07, the Ministry in a written furnished as under:—

“Against the Revised Estimates of Rs. 7.45 crore in 2006-07, the amount released during the year was Rs. 5.24 crore. However, only an amount of Rs. 2,62,75,000 has been reflected in the accounts. This amount is the part payment made to the National Buildings Construction Corporation (NBCC) Limited for the building constructed by them at Guwahati. The other releases were for the lifts etc. to be replaced by the CPWD. In such cases, the CPWD commences the work on the basis of the Letter of Credit issued by the Department. However, the actual payments against this work have not been booked”.

3.36 On the basis for 7 fold increase in allocations at RE stage for 2007-08, the Ministry stated *inter alia* stated as under:—

“A decision has been taken by the Government to acquire ready built office accommodation for the Large Taxpayers Unit at Mumbai (from UTI at a cost of Rs. 78 crore). An amount of Rs. 5 crore is likely to be paid for this purpose in this financial year”.

IX. SHORTAGE OF STAFF

3.37 In response to member's query as to whether there is shortage of staff in the middle level of hierarchy who are considered eyes and ears of the Department and whether there is any correlation with the staff strength and the collection of revenue, the Secretary, Department of Revenue during the evidence held on 26th March, 2008 stated *inter alia* as follows:—

“If I might say, there is never any direct co-relation in this regard. But the fact remains that we have a problem in the middle levels, and we have to take care of it. It is not that they are redundant or not required. It is also not necessarily co-relatable that because you have staff you will have better collections. Collections are a function of multiplicity of concepts, ideas and improvements that we have introduced. So, I would not like to get into a co-relation issue. We are taking corrective measures to try and address the shortage problem. It is not our endeavour to fill up only Class I and Class II vacancies, and we will take care of the middle level vacancies also”.

3.38 Referring to the raising of the issue by the Hon'ble Committee, with the Commissionerate of Central Excise Customs, Goa during a recent study visit to Goa in the month of January, 2008, the Member (P&A) CBEC during the oral evidence held on 26 March, 2008 stated *inter alia* as under:—

“Sir, as the Secretary has already said, we are not trying to fill up only Group 'A' posts and we are trying to fill up all the posts. Recently, we have gone to the Staff Selection Commission to fill up about 3,000 posts of Inspectors and another 1200 posts of Tax Assistants. We are waiting for the selection process to be over and get the dossiers. Immediately, thereafter we will be appointing them”.

A representative of the Department of Revenue stated in this connection as follows:—

“Last year, we have got 3,000 and odd personnel. There is a process downstream also of getting the Selection Board candidates. We have to check where they would like to work and take the post. So, we are at it. We are one of the few Ministries which have had the advantage of filling up the posts”.

3.39 The Commissionerate of Customs and Excise, Goa in a written submission to the commission's query regarding shortage of staff and filling up of various vacancies in field formations informed *inter alia* as under:—

The Cabinet has approved the creation of 4647 post at various levels in the Central Board of Excise and Customs as per the break-up given below:

S.No.	Designation & Pay scale of the post	Number of posts
1.	Commissioner (Rs. 18,400-22,400)	6
2.	Additional Commissioner/Joint commissioner [(Rs. 14,300-18,300)/(Rs. 12,000-16,500)]	17
3.	Deputy/Assistant Commissioner [(Rs. 10,000-15,200)/(Rs. 8,000-13,500)]	135
4.	Superintendent [Rs. 7,500-12,000]	1110
5.	Administrative Officer [Rs. 6,500-10,500]	12
6.	Private Secretary [Rs. 6,500-10,500]	6
7.	Inspector of Central Excise [Rs. 6,500-10,500]	1993
8.	Deputy Office Superintendent [Rs. 5,500-9000]	234
9.	Senior Tax Assistant [Rs. 5,000-8,000]	58
10.	Tax Assistant [Rs. 4,000-6,000]	272
11.	Steno. Grade-1/Grade-II/Grade-III [(Rs. 5,000-8,000)/(Rs. 4,500-7,000)/(Rs. 4,000-6,000)]	60
12.	Drivers [(Rs. 5,000-8,000)/(Rs. 4,500-7,000)/ (Rs. 4,000-6,000)/(Rs. 3,050-4,500)]	18
13.	Sepoy [(Rs. 2,750-4,400)/(Rs. 2,610-4000)]	666
14.	Peon [Rs. 2,550-3,300]	60
	Total	4,647

Besides, the Central Board of Excise and Customs has been exempted from further cut in staff strength in Group 'A' 'B' 'C' and 'D' posts as envisaged in Department of Personnel and Training OM. No. 2/1/8/PIC dated 16.5.2006 and 30.8.2006 for three years *i.e.* 2006-07 to 2008-09. As such, the vacancies arising in all the

grades during the years 2006-07, 2007-08 and 2008-09 shall be filled up without any reduction of posts in the direct recruitment quota. According, the Department is taking suitable steps for filling up the vacancies arising during 2006-07, 2007-08 and 2008-09 as per the extant Recruitment Rules”.

X. COMPREHENSIVE COMPUTERIZATION OF INCOME TAX DEPARTMENT

3.40 Cabinet Committee on Economic Affairs (CCEA) approved the Comprehensive Computerisation Programme (Perspective Plan) of the Income Tax Department. The Programme envisages setting up of All India Income Tax Network, connecting all Income Tax Offices in 510 cities in a single database in November, 2002 to be implemented at a cost of Rs.251.56 crore over a period of three years as under:—

Year	Amount (Rupees in crores)
2002-2003	165.96
2003-2004	68.47
2004-2005	17.13
Total	251.56

3.41 After approval of the Cabinet, as four months only were left in the financial year 2002-03 and the standard formalities and the procedures to be followed while procuring items, the phasing of expenditure was revised as under:—

Year	Amount (Rupees in crores)
2002-2003	78.19
2003-2004	156.24
2004-2005	17.13
Total	251.56

3.42 However, the Empowered Committee to oversee the implementation of the computerization programme set up with the approval of FM on 15.7.2003, had its first meeting on 04.08.2003. In view of the delay in finalisation of an agency for implementation of perspective plan, the actual expenditure during the year 2003-04 was only Rs. 63.54 lakhs.

3.43 Due to belated approval of the projects 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 CCP, the Committee recommended that requisite approval be obtained before embarking on such projects for avoiding likely delay in their implementation due to some reason or the other.

3.44 The Ministry in an action taken reply assured they will make all out efforts to ensure that they will make such situations do not occur in future.

3.45 The Secretary, Department of Revenue, while deposing before the Committee during the examination of Demands for Grants (2006-07) responding to Members queries and CCP informed *inter alia* as under:—

“The computerization programme of the Income Tax Department is scheduled to be completed during the current year”.

Providing further details on the matter, the representatives of CBDT explained as under:—

“The computerisation programme of the Income Tax Department is scheduled to be completed during the current year. This will result in consolidation of 36 regional databases into a single national database and linking of all income tax offices at 510 cities to this database”.

3.46 When asked about the statement made by the representative of the Ministry during an earlier meeting on the target date for completion, the representative stated the following:—

“Last time, I said that it would be completed by June, 2006”.

The representatives further explained on the issue as under:—

“There are four major tracks within the computerisation programme which relate to network, application software, the data centre and the data centre space. Out of these four tracks, three are on time. One relating to system integration is running behind schedule by about three months. Our original committed date was June, 2006. Now, we are reporting that by September, 2006, the national data centre will be in place after which all the four tracks will converge into completion of the project.”

3.47 The Committee in their Report Demands for Grants of Department of Revenue (2006-07) *inter alia* suggested that the Government will not extend the date further more and take all out efforts to complete the project as per the revised schedule *i.e.* 30.9.2006.

3.48 The Government in their action taken reply have *inter alia* stated as follows:—

“The original tender for appointment of Systems Integrator was cancelled by Government. New tender for appointment of Systems integrator has been floated and the bid submission date is 16.10.2006 As per the timelines, the tender is expected to be finalized by January 2007, and finally the National Data Centre is expected to be functional by June 2007”.

3.49 In response to query as to whether the CCP was completed within the time and cost overruns, the Ministry in a written reply stated as follows:—

“The comprehensive computerization plan of the Income-tax Department *inter alia* includes the setting up of a National Data Centre with a single data base which would be connected on an All India Income-tax Network. The Systems Integrator for the project was appointed on 30.3.2007 at a cost of approx. Rs. 202 crores spread over a five year period although the Cabinet Approval was for Rs. 251.56 crores. As per the plan, all the 36 Regional Data bases are to be consolidated and merged. As per the advice of the consultants to the project and the various vendors associated in this exercise, a staggered approach of merger has been planned. The merger of the first three data bases is expected to commence in mid June 2008 and the last by the end of December 2008. The project could not be completed by the F.Y. 2005-06 as planned earlier because the tender floated by the Income-tax Department for appointment of a Systems Integrator was cancelled in August 2006 by the Empowered Committee of the Ministry in the interest of transparency, fairness, quality and elimination of arbitrariness in the tender process. The Empowered Committee was of the opinion that as this project, being one of the biggest tender in the country, then the Government’s interest will be best served by better and open competition then having one single bid that remained after the initial round. Earlier the delay in the appointment of SI was on account of various reasons such as the decision of the Empowered Committee to introduce a benchmark approach for appointment of the SI alongwith delay in the decision

of the finalizing of the technical evaluation of the bids due to complexities in valuation and settlement of deviations in several iterations and several rounds of decisions at various technical forums. Thereafter a fresh tender had to be invited which eventually lead to the appointment of the Systems Integrator on 30.3.2007. Subsequently there have been delays in implementing the solution on the part of the different vendors associated in the project such as the SI, network provider, data centre space provider and the inter dependency of different components. There was also contractual disputes which took time to be resolved”.

3.50 Reiterating the above reply given to the Ministry in a post evidence reply stated as follows:—

“The tender document for Systems integrator (SI) project was issued on 07.03.05. The project could not be completed by the F.Y. 2005-06 as planned earlier because the tender floated by the Income Tax Department was cancelled in August, 2006 by the Empowered Committee of the Ministry in the interest of transparency, fairness, quality and elimination of arbitrariness in the tender process, as by the end of technical evaluation, only one vendor was found technically qualified. Thereafter, a fresh tender had to be invited which eventually led to the appointment of the Systems Integrator on 30.3.2007. Subsequently, there has been delays in implementation of solution on the part of the different vendors associated in the project such as SI, network provider, data center service provider and the inter dependency of different components. There were contractual disputes also which took time to be resolved. As per the present schedule, all It Department users will be connected to the National Data base by 31.12.2008”.

XI. TAX CODE

3.51 There are mounting of arrears of direct and indirect tax revenues year after year, there are lot of demands under litigation with courts, tribunals and special courts, the Committee in their 52nd Report on ‘Demands for Grants (2007-08)’ and the 60th Action Taken Report thereon, desired the Government to bring out the proposed Bill amending the Direct Tax Laws as early as possible, which should greatly enhance the effective administration of the Direct Tax Laws. In this context the Expert Group set up for examining this issue had submitted its report on 8th September, 2006 which is still under consideration of the Ministry of Finance.

3.52 During the course of oral evidence, the representatives of the Ministry of Finance (Department of Revenue) informed as under :—

“As far as the Tax Code is concerned, there was an in-house Committee which was set up and it was basically comprising of departmental officers who went into the entire gamut of issues and prepared a particular blueprint of the code. This code has been in discussion with the Hon. Finance Minister for the last one year. In fact, he has been personally supervising it on every Saturday and Sunday with the officers and the plan is, we are preparing at this stage a Discussion Paper along with the Draft of the Bill. We are hoping that it will take another month or so and as soon as that is ready, that will be released to the public for debate and then based on the feedback there will be further fine-tuning of the Bill before it is presented in Parliament. That is the broad timeline as far as the Tax Code is concerned.”

XII. ANONYMOUS DONATIONS

3.53 The Committee in their 14th Report on the Widening of Tax Base and Evasion of Tax recommended *inter alia* as follows:—

“These exemptions/concessions are being misused by unscrupulous elements to their advantage. Instances have been brought to the notice of the Committee that some of the private hospitals and nursing homes which earn crores of rupees, have misused the exemptions provided for research activities. Similarly many of the Charitable Trusts which are otherwise exempt from the income tax, misuse the provisions to their advantage.... One way of plugging this loophole is by making the filing of income tax returns mandatory for even such institutions/trusts which enjoy such exemptions.”

3.54 Referring to the above recommendations, the Revenue Secretary, while deposing before the Committee in connection with the examination of Widening of Tax Base And Evasion of tax informed *inter-alia* as under:—

“On a specific recommendation of the Committee relating to mandatory filing of income tax returns by institutions and trusts enjoying exemptions, the Taxation Laws (Amendment) Bill, 2005, which was introduced in the Parliament on 12th May 2005, makes provisions for such mandatory filing of returns by any university or other educational institution or any hospital or any other medical institution. A similar provision has been made in respect of such institutions that enjoy benefits of exemption on expenditure on scientific research, research on social science or statistical research.”

3.55 The Finance Minister while presenting the Budget for the year 2006-07 on the issue of taxing on the anonymous donations, stated *inter-alia* as follows:—

“The Standing Committee on Finance has expressed concern that many charitable institutions misuse the provisions of the Income Tax Act. I propose to focus on one misuse, namely, receiving anonymous or pseudonymous donations. Accordingly, I propose that anonymous or pseudonymous donations to wholly charitable institutions will be taxed at the highest marginal rate. Such donations to partly religious and partly charitable institutions/trusts will be taxed only if the donation is specifically for an educational or medical purpose. However, I make it clear that such donations to wholly religious institutions and religious trusts will not be covered by the new provision.”

3.56 With regard to the issue of bringing anonymous donations into the tax net representatives of Ministry of Finance, during the oral evidence held on 26 March, 2008 *inter-alia* stated as follows:—

“As far as anonymous donations to charitable trusts are concerned, when we brought that into the tax net in 2006 Budget, it was a very painful decision, I must say, there were a lot of complaints before that, and the Hon. Committee had also expressed apprehension about the misuse of exemptions granted to various educational and hospital institutions and the laundering of black money through these institutions. Therefore, there was an urgency to take some steps to ensure that there was no laundering. However, the problem was how to design the tax provision so that genuine charities were not affected. So, we proposed that we should bring anonymous donation under the tax net, but exempt two categories. One relates to trusts which are wholly engaged in religious activities. So, if somebody goes to a Mandir and makes a *gupt daan*, it will not be subject to tax. The second category relates to trusts which are established to undertake both charitable and religious activities. However, many times what happens is, people use such trusts (*i.e.* second category) as a route to give donation to educational institutions or hospitals. If an anonymous donation has been given to such trusts with a specific direction that it should be used for educational purposes or it should be used in the hospital run by it, then that donation becomes taxable. So, effectively any donation given with a religious sentiment has been kept out of the purview of taxation.”

XIII. BENAMI ACT

3.57 Drawing attention to the Press Report appeared in the *Economic Times* dated 12.12.2007 the Committee sought to know the measures taken/proposed to be taken to address the reported infirmities in the Act, the Ministry in a written reply submitted as under :—

“The Government is not aware of the reports in the Press. The Benami Transactions (Prohibition) Act, was enacted in 1988. This has not been implemented as it contains grave infirmities. Therefore, the rules to implement the Act have not been framed. These infirmities are matters of detail and have been discussed with the Ministry of Law. The rules for implementing the Act will be framed only after amending certain provisions of the Act. However, while finalising the amendments to the Act, the need to curtail terror funding and to cover fund flow to tax havens is being kept in mind and modifications – as required – will be carried out.

The Central Board of Direct taxes is the implementing agency of the said Act.”

PART II

RECOMMENDATIONS/OBSERVATIONS OF THE COMMITTEE

Bogus Refund Claims

The Committee in their Report on Demands for Grants (2006-07) had sought details of the extent of fraud in terms of revenue loss and the penal action taken against the officials found involved. However, the Ministry have furnished the data on the refund. The Committee had sought data from the Ministry of Finance (Department of Revenue) regarding cases of bogus claim of refunds, which had been commented upon by the Committee in their earlier reports. In response, the Department of Revenue could give only the data pertaining to Delhi region. The Chairman, CBDT indicated during evidence that due to constraint of time the information could be furnished only for Delhi. The Committee desire that information for the entire country regarding cases of bogus claim of refunds during the last three years and the action taken on such cases should be furnished to the Committee expeditiously. The Committee also request the Ministry to furnish them of the data on the advance tax paid by and refunds given to large listed Companies for the last five years (year-wise).

Timely Refunds

2. The Committee are surprised to learn that the Department of Revenue do not maintain data regarding the cases of refunds in which the Department have taken more than the stipulated time of four months. This information is necessary to assess the Department's performance in this regard and to see that assesseees are not deprived of timely refund of their hard earned money. The Committee feel that there should be no difficulty in maintaining such data in the era of computerization. The Committee desire that this should be done forthwith having regard to all details such as the amount involved, causes of delay, break-up of cases of more than one month, two months, etc.

Acquisition of anti-Smuggling Equipment

3. The Committee have been informed that huge shortfall in utilization of allocations made for the purpose of acquiring anti

smuggling equipments (container scanners) during the last four years is due to lack of decision as to the type of scanners to be procured—whether X-ray scanners or gamma ray scanners. The Committee are of the view that the Government indecision on such technical question should not keep the scarce resources blocked year after year. The Committee expect that the decision on the question of the type of scanner to be procured should be taken without any further loss of time and the Committee be informed of the outcome. The Committee expect that there should be no underutilization of allotted funds on this account during 2008-09.

Rewards

4. The Secret Service Fund administered by Department of Revenue is utilised for generating information through informers and other means, for providing meaningful intelligence and additional information. The Committee do not agree with the view of the Department of Revenue that it is not possible to specifically quantify the additional revenue brought under the tax net through informer. The Committee feel that without disclosing the identity of informer, it should be possible to identify the instances and the final revenue generated by such instances and work out consolidated figures to get a fair idea of the effectiveness of the intelligence gathering. The Committee desire that the Department of Revenue should evolve a mechanism for this purpose. The Committee would also like to be informed of the cases of mis-use and deprivation of the informers of their due share, if any, during the last five years.

It is needless to point out that role of a person, who takes risks and voluntarily furnishes information regarding tax evasion, albeit for monetary considerations is extremely vital in detecting tax evasion cases and prevention of unlawful activities. Timely and sufficient rewards in such cases will act as a driving force for the success of reward scheme. The Committee, therefore, desire that the Department should have a fresh look at the Rewards Scheme to see what refinements can be made in the Scheme in the light of the experience gained over the years.

Acquisition of office accommodation

5. The Committee regret to find that there has been surrender of huge amount of funds year after year to the extent of 55% (Rs. 44.30 crore) in 2004-05, 78% (Rs. 51.50 crore) in 2005-06 and 86% (Rs. 16.37 crore) in 2006-07 from the head of acquisition of office accommodation. This reflects poor budgetary planning and control. The Committee suggest that the deficiencies in the system be identified so that corrective steps can be taken to ensure that there is no recurrence of such surrender of funds atleast in the future.

Comprehensive Computerisation programme

6. There has been inordinate delay in completion of the Computerisation programme of the Income Tax Department. The programme which was originally scheduled to be completed in June 2006 at a cost of Rs. 251 crore has been re-scheduled four times and now expected to be completed by December, 2008. The delay is stated to be on account of cancellation of initial tender and contractual disputes. Whatever be the reasons for delay, time lag of about two and half years in completion of the project reflects poorly on the Department. The Committee would like to know whether the project suffered any cost escalation. It is the responsibility of the Department to ensure by effective monitoring and close co-ordination that the project does not suffer any further delay beyond December, 2008. The Committee are of the view had the computerization programme been completed as per the original schedule, the extent of problem of the fake PAN Cards would not have been to the extent that it is today.

Tax Code

7. The Committee had recommended in their 52nd Report (2006-07) that the Bill amending the Direct Tax Laws be introduced with a view to ensuring the effective administration of Direct Tax Laws. The Committee regret to find that even one year after the Committee's recommendation, the amendment Bill is yet to be introduced in Parliament. It has been stated that the Discussion Paper alongwith the Draft of the Bill is under preparation and will be released to the public for debate and then based on feed back with suitable amendments, the Bill will be introduced in Parliament. The Committee feel that fairly long time has already been taken by the Department on this matter. It should be ensured that there is no avoidable delay in introducing the Bill before Parliament.

Shortage of staff

8. The Committee observe that there has been shortage of manpower to a large extent over the years. Shortage of staff is stated to be affecting the entire collection of tax and revenue, although the Revenue Secretary held that there can be no direct co-relation in this regard. The Committee have been informed that recruitment of 3000 personnel has taken place last year who will be appointed on completion of formalities. It should be ensured that there is no let up in the collection of revenue on account of delay in filling up of vacancies.

Anonymous donations

9. The Committee are of the view that the philanthropic activities for instance, propagation of yoga, providing succour to the victims of natural disasters, running gaushalas, old age homes, orphanages, conservation of environment, wild animals etc. are being equated with charitable institutions and the entity concerned taxed accordingly. The Committee are of the view that the aforementioned activities should not be treated on par with the charitable activities like providing education and medical facilities etc. They, therefore, recommend that the appropriate guidelines in this regard be issued as to not tax these entities.

Benami Transactions (prohibition) Act, 1988

10. It transpired during the Committee's examination of the Demand for Grants of the Department of Revenue that the Benami Transaction Prohibition Act enacted in 1988 contained grave infirmities and hence the rules to implement the same had not been formulated. It has been stated that the Department of Revenue had a discussion in this regard with the Ministry of Law and will amend certain provisions of Benami Transaction (Prohibition) Act, 1988 keeping in mind the need to curtail terror funding and to cover fund flow to tax havens. It came as a rude shock to the Committee that during the last two decades, the rules under the Act could not be framed and one of the important legislations has been made ineffective. The Department owes an explanation for this serious lapse. The Committee are of the view that considering the funding pattern of the various terrorist outfits in particular and utilization of ill-gotten money therefor, it has become all the more imperative to enforce the existing legal provisions strictly and remove any lacuna therein within six months. The Committee, therefore, desire that the matter should be examined expeditiously and if need be, suitable amendment bill in this regard be brought before Parliament without delay.

NEW DELHI;
11 April, 2008
22 Chaitra, 1930 (Saka)

ANANTH KUMAR,
Chairman,
Standing Committee on Finance.

MINUTES OF THE TWENTY-SECOND SITTING OF
STANDING COMMITTEE ON FINANCE

The Committee sat on Wednesday, the 26th March, 2008 from 1100 hours to 1635 hours in Committee Room 'E', Parliament House Annexe, New Delhi

PRESENT

Shri Ananth Kumar—*Chairman*

MEMBERS

Lok Sabha

2. Shri Jaswant Singh Bishnoi
3. Shri Vijoy Krishna
4. Shri Bhartruhari Mahtab
5. Shri Rupchand Pal
6. Shri P.S. Gadhavi
7. Shri R. Prabhu
8. Shri A.R. Shaheen
9. Shri M.A. Kharabela Swain

Rajya Sabha

10. Shri Venkaiah Naidu
11. Shri S.S. Ahluwalia
12. Shri Mangani Lal Mandal
13. Shri Raashid Alvi
14. Shri Moinul Hassan

SECRETARIAT

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

**Pre-Lunch Session
(1100 to 1350 Hours)**

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

**Post-Lunch Session
(1430 to 1635 Hours)**

WITNESSES

Department of Revenue

1. Shri P.V. Bhide, Secretary
2. Shri K. Jose Cyriac, Additional Secretary
3. Shri Mukul Singhal, Joint Secretary

Integrated Finance Unit

Shri M. Deenadayalan, Financial Advisor

CBEC

1. Shri P.C. Jha, Member (CX)
2. Shri J.M.K. Sekhar, Member (Budget/ST)
3. Shri V. Sridhar, Member (Comp)
4. Shri J.K. Batra, Member (Customs/RI&I)
5. Shri Y.G. Parande, Director General (Systems)
6. Shri S.K. Goel, Director General (Vigilance)
7. Shri Vivek Johri, Joint Secretary (TRU-I)

CBDT

1. Shri R. Prasad, Chairman
2. Shri Ajai Singh, Member (L&C)
3. Shri K. Vasudevan, DGIT (Systems)
4. Shri A.K. Handa, DG (Vigilance)
5. Shri Arbind Modi, JS (TPL-I)

6. In the absence of the Chairman, the Committee chose Shri Bhartruhari Mahtab to chair the sitting under Rule 258(3) of the Rules of Procedure.

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

8. The Committee then took oral evidence of representatives of the Ministry of Finance (Department of Revenue) on Demands for Grants (2008-09) and other related matters. The points discussed during the meeting broadly related to tax code, status of Goods and Services Tax (GST), tax exemptions, comprehensive computerisation of CBDT and CBEC, shortage of staff, SEZs and loss of revenue to the Government, acquisition of scanners, reward scheme, charitable donations, secret service expenditure etc.

9. Thereafter, the Chairman directed the representatives of Ministry of Finance (Department of Revenue) to furnish written replies/notes on points raised by the Members during the discussion within two days.

10. A verbatim record of proceedings has been kept.

The witnesses then withdrew.

The Committee then adjourned.

MINUTES OF THE TWENTY-FIFTH SITTING OF
THE STANDING COMMITTEE ON FINANCE

The Committee sat on Thursday, the 10th April, 2008 from
1100 hrs. to 1215 hrs.

PRESENT

Shri Ananth Kumar—*Chairman*

MEMBERS

Lok Sabha

2. Shri Gurudas Dasgupta
3. Shri Rupchand Pal
4. Shri P.S. Gadhavi
5. Shri M.A. Kharabela Swain
6. Shri Suresh Prabhakar Prabhu

Rajya Sabha

7. Shri Raashid Alvi
8. Shri M. Venkaiah Naidu
9. Shri S.S. Ahluwalia
10. Shri Mahendra Mohan
11. Shri Vijay J. Darda

SECRETARIAT

1. Shri A. Louis Martin — *Joint Secretary*
2. Shri A.K. Singh — *Director*
3. Shri T.G. Chandrasekhar — *Deputy Secretary*
4. 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 Report on Demands for Grants (2008-09) of the Ministry of Finance (Departments of Economic Affairs, Expenditure, Financial Services and Disinvestment);

- (ii) Draft Report on Demands for Grants (2008-09) of the Ministry of Finance (Department of Revenue).
- (iii) Draft Report on Demands for Grants (2008-09) of the Ministry of Planning.
- (iv) Draft Report on Demands for Grants (2008-09) of the Ministry of Statistics and Programme Implementation.
- (v) Draft Report on Demands for Grants (2008-09) of the Ministry of Corporate Affairs.

4. The Committee adopted the above reports with modifications as shown in Annexures (i) to (v) respectively.

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

6. The Committee also decided to take up for examination the issues of Omnibus Regulator for the Financial Sector and Adequacy of the current price indices in measuring prices.

The Committee then adjourned.

ANNEXURE

- (a) Modifications/Amendments made in the draft report on the 67th Report on Demands for Grants (2008-09) of Ministry of Finance (Departments of Economic Affairs, Expenditure, Financial Services and Disinvestment).

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

- (b) Modifications/Amendments made in the draft report on the 68th Report on Demands for Grants (2008-09) of Ministry of Finance (Department of Revenue).

Page No.	Para No.	Line	
1	2	3	4
27	1	13	<p><i>After</i> 'Committee expeditiously'. <i>Add:—</i> The Committee also request the Ministry to furnish them of the data on the advance tax paid by and refunds given to large listed Companies for the last five years (year-wise).</p>
29	4	6	<p><i>After</i> 'instances and the' <i>Add:—</i> final</p>
29	4	9	<p><i>After</i> 'for this purpose'. <i>Add:—</i> The Committee would also like to be informed of the cases of mis-use and deprivation of the informers of their due share, if any, during the last five years.</p>

1	2	3	4
30	6	16	<p><i>After</i> ‘beyond December, 2008’.</p> <p><i>Add:—</i></p> <p>The Committee are of the view had the computerization programme been completed as per the original schedule, the extent of problem of the fake PAN Cards would not have been to the extent that it is today.</p> <p><i>Add after para 3.52 and renumber the subsequent paras accordingly:—</i></p> <p>Anonymous donations</p> <p>The Committee in their 14th Report on the Widening of Tax Base and Evasion of Tax recommended <i>inter-alia</i> as follows:</p> <p>“These exemptions/concessions are being misused by unscrupulous elements to their advantage. Instances have been brought to the notice of the Committee that some of the private hospitals and nursing homes which earn crores of rupees, have misused the exemptions provided for research activities. Similarly many of the Charitable trusts which are otherwise exempt from the income tax, misuse the provisions to their advantage.... One way of plugging this loophole is by making the filing of income tax returns mandatory for even such institutions/trusts which enjoy such exemptions.”</p> <p>The Finance Minister while presenting the Budget for the year 2006-07 on</p>

the issue of taxing on the anonymous donations, stated *inter-alia* as follows:—

“The Standing Committee on Finance has expressed concern that many charitable institutions misuse the provisions of the Income Tax Act. I propose to focus on one misuse, namely, receiving anonymous or pseudonymous donations. Accordingly, I propose that anonymous or pseudonymous donations to wholly charitable institutions will be taxed at the highest marginal rate. Such donations to partly religious and partly charitable institutions/trusts will be taxed only if the donation is specifically for an educational or medical purpose. However, I make it clear that such donations to wholly religious institutions and religious trusts will not be covered by the new provision.”

With regard to the issue of bringing anonymous donations into the tax net representatives of Ministry of Finance, during the oral evidence held on 26 March, 2008 *inter-alia* stated as follows:—

“As far as anonymous donations to charitable trusts are concerned, when we brought that into the tax net in 2006 Budget, it was a very painful decision, I must say, there were a lot of complaints before that, and the Hon. Committee had also expressed apprehension about the misuse of exemptions granted to various educational and hospital institutions

and the laundering of black money through these institutions. Therefore, there was an urgency to take some steps to ensure that there was no laundering. However, the problem was how to design the tax provision so that genuine charities were not affected. So, we proposed that we should bring anonymous donation under the tax net, but exempt two categories. One relates to trusts which are wholly engaged in religious activities. So, if somebody goes to a Mandir and makes a *gupt daan*, it will not be subject to tax. The second category relates to trusts which are established to undertake both charitable and religious activities. However, many times what happens is, people use such trusts (*i.e.* second category) as a route to give donation to educational institutions or hospitals. If an anonymous donation has been given to such trusts with a specific direction that it should be used for educational purposes or it should be used in the hospital run by it, then that donation becomes taxable. So, effectively any donation given with a religious sentiment has been kept out of the purview of taxation.”

Add after para 8 in part II of the Report and renumber the subsequent paras accordingly:—

The Committee are of the view that the philanthropic activities for instance, propagation of yoga, providing succour to the victims of natural disasters, running *gaushalas*, old age homes, orphanages,

1	2	3	4
			conservation of environment, wild animals etc. are being equated with charitable institutions and the entity concerned taxed accordingly. The Committee are of the view that the aforementioned activities should not be treated on par with the charitable activities like providing education and medical facilities etc. They, therefore, recommend that the appropriate guidelines in this regard be issued as to not tax these entities.
32	9	11	<i>For</i> 'Without further delay' <i>Read:—</i> Within six months.
	(c)		Modifications/Amendments made in the draft report on the 69th Report on Demands for Grants (2008-09) of Ministry of Planning.
	**	**	**
	**	**	**
	(d)		Modifications/Amendments made in the draft report on the 70th Report on Demands for Grants (2008-09) of Ministry of Statistics and Programme Implementation
	**	**	**
	**	**	**
	(e)		Modifications/Amendments made in the draft report on the 71st Report on Demands for Grants (2008-09) of Ministry of Corporate Affairs.
	**	**	**
	**	**	**