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STANDING COMMITTEE ON FINANCE

(2008-09)

FOURTEENTH LOK SABHA

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

**Demands for Grants
(2008-09)**

[Action taken by the Government on the Recommendations contained in the Sixty-Eighth Report of the Standing Committee on Finance on Demand for Grants (2008-09) of Ministry of Finance (Department of Revenue)]

SEVENTY-FOURTH REPORT



**LOK SABHA SECRETARIAT
NEW DELHI**

December, 2008/Agrahayana, 1930 (Saka)

SEVENTY-FOURTH REPORT

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(2008-2009)**

(FOURTEENTH LOK SABHA)

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[Action taken by the Government on the Recommendations contained in the Sixty-Eighth Report of the Standing Committee on Finance on Demand for Grants (2008-09) of Ministry of Finance (Department of Revenue)]

*Presented to Lok Sabha on 18 December, 2008
Laid in Rajya Sabha on 18 December, 2008*



**LOK SABHA SECRETARIAT
NEW DELHI**

December, 2008/ Agrahayana ,1930 (Saka)

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COMPOSITION OF STANDING COMMITTEE ON FINANCE – 2008-2009

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. Shri Ramakrishna Badiga*
21. Vacant[‡]

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. Shri K.V.P. Ramachandra Rao
31. Shri Shivanand Tiwari

SECRETARIAT

- | | | |
|----------------------------------|---|------------------------|
| 1. Shri R.C. Ahuja | - | Additional Secretary |
| 2. Shri A.K. Singh | - | Director |
| 3. Shri Ram Kumar Suryanarayanan | - | Deputy Secretary Gr-II |

* Nominated to this Committee w.e.f. 26.8.2008

[‡] Vacant w.e.f. 14.11.2008 on nomination of Shri Brajesh Pathak to Rajya Sabha

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 Seventy-fourth Report on action taken by Government on the recommendations contained in the Sixty-Eighth Report of the Committee (Fourteenth Lok Sabha) on Demand for Grants (2008-2009) of the Ministry of Finance (Department of Revenue).

2. The Sixty-Eighth Report was presented to Lok Sabha on 16 April, 2008 and laid in Rajya Sabha on 15 April, 2008. Replies indicating action taken on all the recommendations contained in the Report were furnished by the Government on 28 August and 7 November, 2008.

3. The Committee considered and adopted this Report at their sitting held on 11 December, 2008.

4. An analysis of action taken by Government on the recommendations contained in the Sixty-eighth 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;
11 December, 2008
20 Agrahayana, 1930 (*Saka*)

ANANTH KUMAR,
Chairman,
Standing Committee on Finance.

CHAPTER I

REPORT

This Report of the Standing Committee on Finance deals with action taken by the Government on the recommendations/observations contained in their Sixty-eighth Report on Demands for Grants (2008-2009) of the Ministry of Finance (Department of Revenue), which was presented to Lok Sabha on 16.4.2008 and laid in Rajya Sabha on 15.4.2008.

2. The Action Taken Notes have been received from the Government in respect of all the 10 recommendations contained in the Report. These have been analysed and categorized as follows:

- (i) Recommendations/observations that have been accepted by the Government :

Recommendation Nos. 1, 2, 5, 6 & 8

(Total 5)

(Chapter II)

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

Recommendation No. 9

(Total 1)

(Chapter III)

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

Recommendation Nos. 3 and 4

(Total 2)

(Chapter IV)

- (iv) Recommendations/observations in respect of which final replies by the Government are still awaited :

Recommendation Nos. 7 & 10

(Total 2)

(Chapter V)

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

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

Timely Refunds
(Recommendation No. 2)

5. The Committee had expressed their dissatisfaction that the Department of Revenue did not maintain any data with regard to delayed refunds, in which the Department had taken more than the stipulated time of four months. The Committee had desired that such data should be maintained 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.

6. The Government in their action taken reply have, *inter alia* stated as follows:-

“The data relating to refunds, including pending refund claims is at present available in the various subordinate offices of CBDT and CBEC throughout the country, albeit in a disaggregated form. It would have been difficult to collate such information from the large number of field offices manually and that was the reason why the collated data was not provided. The committee has now recommended that such data be maintained through computerization. The Department of Revenue accepts this recommendation. Computerization efforts have already been started and is well on its way in the various wings of the two Boards. The present position is as follows:-

Central Excise and Service Tax

The CBEC has consolidated its infrastructure and is moving towards creating a centralized database. A new software application for automating Central Excise and Service Tax processes, called ACES [Automation in Central Excise and Service Tax], has been developed and will be deployed soon. This software application has a specific refund module which will keep track of all refund claims filed by the assessee. There is also a separate dashboard in the application itself exclusively meant for use by the assessee to keep track of his refund claims online and also obtain the status of processing of his refund claims.

Customs

The CBEC has also issued detailed instructions vide Customs Circular No.24/2007 dated 02.07.2007 for providing on-line data-base on the departmental website to enable any person, who had applied for refund with Customs to know the status of his refund application.

Customs Drawback

The Citizens' Charter of CBEC makes a commitment to pay any duty drawback within 48 hours of the export of the goods in case of electronic declarations and 15 days in case of paper declarations. Normally, drawback claims are sanctioned within the prescribed time limit except in cases where errors take place on account of EGM mismatch or queries raised by officers for deciding classification, production of CENVAT non-availment certificate or test report results etc.

It is mentioned that the Indian Customs EDI System (ICES) is an automated workflow application and is currently functional at 40 locations. Out of these 40 locations, the facility for electronic credit of Duty Drawback is operational at 33 locations, which expedites the process of grant of drawback.

When the custom modules are fully operational (by 2009-10), the full data on refund claims will be available on line.

C.B.D.T.

As on date, Income Tax Offices in 440 cities are not working on the network and the processing of returns in these stations is done on stand alone computers. In the All India Income Tax Network that is expected to be fully operational by 2009-2010, a provision has been made to generate the information relating to payment of refunds.”

7. The Committee had desired that the Department of Revenue should maintain comprehensive computerised data relating to delays in respect of refunds beyond the stipulated period of four months. While accepting the recommendation of the Committee, the Ministry have stated that computerization efforts have already been started in the various wings of the two Boards (CBDT and CBEC) under the Department. The Committee hope that the process of computerisation of refund records will be expedited so that the assesseees can access information on the status of their refund claims.

Acquisition of anti-Smuggling Equipment (Recommendation No.3)

8. The Committee were informed that there was a huge shortfall in utilization of funds allotted for acquisition of anti smuggling equipment, due to lack of decision about the type of scanners to be procured. The Committee were of the view that due to Government's indecision scarce resources should not be blocked year after year. They expected that the decision on the type of scanner to be procured should be taken without further loss of time and the funds allocated during 2008-09 be utilized fully.

9. The Government in their action taken reply have, *inter alia* stated as follows:-

“The decision regarding the type of scanner to be procured was taken by the Department in 2005 and Committee on Non Plan Expenditure (CNE) approval obtained on 14.02.2006 for procurement of 4 fixed X-ray scanners and 3 mobile Gamma ray scanners. Subsequently, the proposal to procure 7 Truck / Container Scanners at an estimated cost of Rs. 172 crore was approved by the Cabinet Committee of Economic Affairs (CCEA) on 27.10.2006.

The Government will take every possible step to ensure that the funds allocated for the procurement of 7 Container Scanners are fully utilized during 2008-09.”

10. However, during oral evidence of the Ministry of Finance, when 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 representative 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”.

11. The Ministry of Finance (Department of Revenue) were asked to explain the reasons for giving different versions in their deposition before the Committee and later in their Action Taken Replies with regard to the approval and procurement of anti-smuggling equipment . While regretting the misunderstanding that has been created, the Ministry of Finance (Department of Revenue) have clarified the points in detail as explained hereunder.

12. The global tender for procurement of mobile gamma-ray scanners was floated through DAVP on 16.12.2007 after being finally vetted by the Ministry of Law, inviting bids by 18.02.2008. The bids were opened on the same date. The IB was then requested on 03.03.2008 to provide security clearance in respect of three bidders which was given vide their letter dated 18.06.2008. The sub-Committee set up by the CBEC to evaluate the technical bids then examined the bids and submitted its findings to the Tender Evaluation Committee (TEC) on 25.6.2008 which accepted these findings on the same day. The price bid of eligible bidders was opened on 09.07.2008 and the bid of M/s ECIL was recommended by the TEC on 18.07.2008. The matter is now being examined by the Integrated Finance Unit of the Department of Revenue before final approval of the Finance Minister can be obtained. Separately, concerns were also expressed in the media and a legal notice received against the choice of gamma-ray scanners. A reference was also made in a complaint to a report of the IB addressed to the Home Ministry to the effect that gamma-ray scanners were not suitable for detection of weapons etc. Advice was also sought from the Department of Atomic Energy who opined that gamma-ray scanners are advantageous for the first level screening of low-density cargo and high energy x-ray based systems are necessary for detection of high density cargo such as weapons/armaments. The Department of Atomic Energy further advised that Neutron-based systems are recommended for detection of concealed explosives, which are however not yet available internationally on commercial terms. A final decision with respect to all the aforesaid concerns, as also the action to be taken on the legal notice was pending at the time when evidence was tendered before the Committee.

13. The sequence of facts given now by the Ministry, after an explanation was sought from them regarding the different versions put forth on the process of approval and procurement of anti-smuggling equipment, could well have been placed earlier before the Committee. These facts were not clarified even in their Action Taken Replies submitted subsequently. The Ministry's omission to furnish all the relevant facts to the Committee had resulted in incomplete and mis-leading information, which prevented the Committee from arriving at the right conclusion on the subject. While deprecating the Ministry's omission to furnish the material facts, the Committee expect that the Ministry of Finance (Department of Revenue) will be more careful in the future. The Committee further desire that the Ministry of Finance should now act in a decisive manner in the matter without any further delay so that the requisite anti-smuggling equipment are procured and duly installed. The Committee would like to be kept apprised in the matter.

Rewards

(Recommendation No. 4)

14. The Committee had desired that the Department of Revenue should evolve a mechanism so that linkage is established between the reward given to the informers of revenue intelligence and the final revenue realised. In this regard, consolidated figures should be worked out in order to get a fair idea of the effectiveness of intelligence gathering.

15. In their Action Taken Reply, the Ministry have expressed their inability to link instances of information given by informers with final revenue generated by such instances. They have explained that the quantum of extra taxes realisable is determined only after all the assessments have become final and no appeal is pending or filed and the time for filing of appeal has expired and that the time lag between the

information given by the informer and the final demand realised which is attributable to such information is such that a mechanism to correlate information gathering and final revenue collected is not readily possible.

16. The Committee are at a loss to comprehend as to how the quantum of the rewards and the efficacy of the information provided by the informers of revenue intelligence can be decided without reference to the revenue realised as a result of such information. The Committee would therefore emphasise again that the Department of Revenue must endeavour to evolve a coherent mechanism for this purpose, whereby consolidated figures for grant of reward can be worked out on the basis of revenue realised.

Comprehensive Computerisation Programme
(Recommendation No.6)

17. The Computerisation programme of the Income Tax Department which was to be completed by June, 2006 at a cost of Rs.251 crore had been rescheduled four times and now expected to be completed by December, 2008. The Committee were of the view that had the computerization programme been completed as per original schedule, the extent of problem of fake PAN Cards would not have been to the extent that it is today.

18. The Government in their action taken reply have, *inter alia* stated as follows:-

“Expenditure sanction of Rs. 251.56 crores was accorded by the Cabinet in December 2002 for the third phase of the computerization plan of the Income Tax Department. Subsequently, because of change in implementation methodology, the department sought additional grant of Rs. 442.03 crores on account of running and managing the All India Income Tax network, National Data Center (PDC), Business Continuity site (BCP), Disaster Recovery site (DR) and the Facilities Management Services (FMS) for a period of 5 years. Approval was given by the Cabinet on 30/6/2005 for additional grant and the revised total sanctioned cost of the project was Rs. 693.59 crores (Rs 251.56 Crores + Rs 442.03 crores) to be spent between FYs 2004-05 to 2010-2011.

As against the approval of Rs. 693.59 crores for the project for five years, the committed/actual expenditure incurred so far is Rs. 543.13 crores. There has been no cost escalation of the project.

As regards the observation of Hon'ble Committee on the need to ensure effective monitoring and close co-ordination of the project, it is submitted that as per the latest schedule, the project in all likelihood will be completed by March 2009. The department is taking all necessary steps to ensure that the above timeline is maintained. The department has engaged the services of a professional project consultant firm which assists the departmental officials in day to day project monitoring. A steering committee headed by Director General of Income Tax (Systems) is also regularly meeting all the concerned project vendors to ensure that there are no slippages.

The matter of false PAN cards is not related to the project integration in any way. The issue of PAN cards is an outsourced activity.”

19. During the oral evidence of the representatives of the Ministry of Finance, Department of Revenue, the Committee were informed that the Computerisation programme of the Income Tax Department would be completed by December, 2008. However, as per the reply furnished by the Ministry, the deadline has again been extended to March, 2009. The Committee are dismayed over the casual approach of the Ministry in handling such an important project, which has been re-scheduled four times. Although, the Ministry have denied any cost escalation in the project, the Committee find this plea untenable as the Department had sought an additional grant of Rs. 442.03 crore for the project and further, the sanctioned cost was revised to Rs. 693.59 crore. While taking an adverse view of the vacillation and inordinate delay in the implementation of the project, the Committee expect that atleast now the Income Tax Department will observe certain discipline and adhere to their revised deadline. Further, the Committee would like the Ministry to conduct a high level enquiry into the entire matter and submit a report to the Committee within a period of one month from the presentation of this Report.

CHAPTER II

RECOMMENDATIONS/OBSERVATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT

Recommendation No.1

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).

Reply by the Government

The details of bogus claim of refunds during the last three years (2005-06,2006-07,2007-08) and the action taken on such cases are given below:

(1)**Pune** : Eighteen cases of bogus claim of refunds have come to notice in the charge of CCIT (CCA) Pune. One staff and one Inspector have been suspended and one daily wagger's service has been terminated for involvement in the fraud. The case filed by the Crime Branch against these persons is in progress in Court at Pimpri.

(2) Chandigarh:

(a)Panchkula: 10 cases of bogus claim of refunds involving Rs 1.7 lakh (approx) have come to notice. No official has been found to be involved. The person who claimed bogus refund was arrested by Police and the matter is pending before the Civil Court.

(b) Amritsar:14 cases of bogus claims of refunds involving Rs 2.19 lakh(approx) have come to notice. Three officials involved have been suspended and departmental proceedings are pending.

(3)Meerut: In Meerut, 7 cases of bogus claim of refunds came to notice involving Rs 16.35 lakh, out of which Rs. 15.25 lakh has since been recovered. One CA has been convicted for 4 months. A complaint with the Institute of CAs has also been lodged.

(4)Ahmedabad: In Ahmedabad, 17 cases of bogus claims of refunds have come to notice. No official has been found to be involved. One ITP was involved in this case. The case has been referred to CBI for investigation. The matter is under investigation by CBI, Gandhinagar.

(5)Chennai: In four charges, many cases of bogus claim of refunds have come to notice. One was a case of fraudulent encashment of Refund Orders and alteration of tax challans and interpolation of the amount in the relevant columns. Three persons were found involved in this case. Criminal case filed by CBI has resulted in conviction of 3 years for one person. Departmental proceedings have been initiated against two officials involved. One CA has also been found to be involved. Matter of CA has been referred to ICAI for action.

(6)Hyderabad: In Hyderabad, 30 cases of bogus claims of refunds have come to notice. One ITP (Income Tax Practitioner) was involved. The name of the ITP has been deleted from the register of authorised ITPs maintained in the office of CIT-V. The matter has been referred to CBI.

(7)Delhi: In Delhi, seven cases of bogus claims of refunds have come to notice. Two officials were found to be involved and have been placed under suspension. Investigations are still going on. In some cases FIR has been lodged with Economic Offences wing on 22.8.2005 against the claimants of bogus refund. In three cases, amount of bogus refund claimed along with the interest was recovered by attachment of bank account of the accused person and has been deposited in Government Treasury.

(8) Bhubneshwar: Many cases have been detected. All cases were of SAIL employees. The modus operandi was to attach forged documents like banker's certificate regarding recovery of house-building loan, the principal amount and the interest charged to show loss under the head "Income from house property" and to adjust the loss amount against the salary income. Forged documents of ICICI Bond and IDBI Bond, deposit-slip of PPF etc. were also attached. No official is found to be involved.

(9) In Mumbai, 4 cases of bogus claims of refunds have come to notice. One official who has been found to be involved has been placed under suspension. The case is being investigated by the Kalyan Police Station.

(ii) The On Line Tax Accounting System (OLTAS) was started on 01-06-2004. Therefore data for only the last four years on the advance tax paid by and refunds given to large listed Companies is annexed as **Annexure-A**. Such data in respect of all corporate assesseees is as under:

Details of Tax Collection from corporate assesses (Rs in crore)

Financial Year	Advance Tax	Total Collections	Refunds	Net Collections
1	2	3	4	5
2002-03	40,625 (64.54)	62,950	16,778 (26.65)	46,172
2003-04	49,004 (59.60)	82,231	18,669 (22.71)	63,562
2004-05	73,934 (70.29)	1,05,189	22,509 (21.40)	82,680
2005-06	66,625 (53.37)	1,24,837	23,560 (18.87)	1,01,277
2006-07	96,568 (55.20)	1,74,935	30,617 (17.51)	1,44,318

(Figures in brackets indicate percentage of total collection (Source: C&AG reports 2006 & 2008))

Recommendation No.2

Timely Refunds

The Committee is 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.

Reply of the Government

The data relating to refunds, including pending refund claims is at present available in the various subordinate offices of CBDT and CBEC throughout the country, albeit in a disaggregated form. It would have been difficult to collate such information from the large number of field offices manually and that was the reason why the collated data was not provided. The committee has now

recommended that such data be maintained through computerization. The Department of Revenue accepts this recommendation. Computerization efforts have already been started and is well on its way in the various wings of the two Boards. The present position is as follows:-

Central Excise and Service Tax

The CBEC has consolidated its infrastructure and is moving towards creating a centralized database. A new software application for automating Central Excise and Service Tax processes, called ACES [Automation in Central Excise and Service Tax], has been developed and will be deployed soon. This software application has a specific refund module which will keep track of all refund claims filed by the assessee. There is also a separate dashboard in the application itself exclusively meant for use by the assessee to keep track of his refund claims online and also obtain the status of processing of his refund claims.

Customs

The CBEC has also issued detailed instructions vide Customs Circular No.24/2007 dated 02.07.2007 for providing on-line data-base on the departmental website to enable any person, who had applied for refund with Customs to know the status of his refund application.

Customs Drawback

The Citizens' Charter of CBEC makes a commitment to pay any duty drawback within 48 hours of the export of the goods in case of electronic declarations and 15 days in case of paper declarations. Normally, drawback claims are sanctioned within the prescribed time limit except in cases where errors take place on account of EGM mismatch or queries raised by officers for deciding classification, production of CENVAT non-availment certificate or test report results etc.

It is mentioned that the Indian Customs EDI System (ICES) is an automated workflow application and is currently functional at 40 locations. Out of these 40

locations, the facility for electronic credit of Duty Drawback is operational at 33 locations, which expedites the process of grant of drawback.

When the custom modules are fully operational (by 2009-10), the full data on refund claims will be available on line.

C.B.D.T.

As on date, Income Tax Offices in 440 cities are not working on the network and the processing of returns in these stations is done on stand alone computers. In the All India Income Tax Network that is expected to be fully operational by 2009-2010, a provision has been made to generate the information relating to payment of refunds.

Recommendation No. 5

Acquisition of office accommodation

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.

Reply of the Government

Need for careful review of proposals in respect of acquisition of ready built office accommodation before sending proposals for allocation of funds as well as to minimise the time lag between inception of proposal and its final execution is being communicated to the field formations. As the very process of preparing of such proposals entails multiple stages of examination including inter-alia obtaining CPWD certificate on valuation/technical suitability and meeting the objections/queries raised by the Appraising/Sanctioning Authority etc, it is proposed to ensure that budgetary allocations are proposed only when the

project reaches an advance stage of maturity. This would help in reducing the extent of surrender of amounts as suggested by the Hon'ble Committee.

Recommendation No.6

Comprehensive Computerisation Programme

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. 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.

Reply of the Government

Expenditure sanction of Rs. 251.56 crores was accorded by the Cabinet in December 2002 for the third phase of the computerization plan of the Income Tax Department. Subsequently, because of change in implementation methodology, the department sought additional grant of Rs. 442.03 crores on account of running and managing the All India Income Tax network, National Data Center (PDC), Business Continuity site (BCP), Disaster Recovery site (DR) and the Facilities Management Services (FMS) for a period of 5 years. Approval was given by the Cabinet on 30/6/2005 for additional grant and the revised total sanctioned cost of the project was Rs. 693.59 crores (Rs 251.56 Crores + Rs 442.03 crores) to be spent between FYs 2004-05 to 2010-2011.

As against the approval of Rs. 693.59 crores for the project for five years, the committed/actual expenditure incurred so far is Rs. 543.13 crores. There has been no cost escalation of the project.

As regards the observation of Hon'ble Committee on the need to ensure effective monitoring and close co-ordination of the project, it is submitted that as per the latest schedule, the project in all likelihood will be completed by March 2009. The department is taking all necessary steps to ensure that the above timeline is maintained. The department has engaged the services of a professional project consultant firm which assists the departmental officials in day to day project monitoring. A steering committee headed by Director General of Income Tax (Systems) is also regularly meeting all the concerned project vendors to ensure that there are no slippages.

The matter of false PAN cards is not related to the project integration in any way. The issue of PAN cards is an outsourced activity.

Recommendation No.8

Shortage of staff

The Committee observes 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.

Reply of the Government

C.B.E.C.

The manpower position has significantly improved since the year 2007-08. The Cabinet has approved creation of additional 4,647 posts for the CBEC and has also exempted the CBEC from the mandatory annual 2/3rd cut in Direct

Recruitment under the DOPT guidelines for 3 years upto 2008-09. In addition, 906 posts have been created for providing Customs staff to the new SEZs. Promotion posts have been largely filled up now. Regarding Direct Recruitment, requisition has been sent to UPSC (for 320 Group A IRS(C&CE) posts) and to SSC (for 2,632 posts of Inspectors and 1,067 posts of Tax Assistants). The staff position will significantly improve as soon as the additional manpower is received through UPSC and SSC. However, even at present, the deployment of manpower has been made in such a manner that the revenue collection does not suffer.

C.B.D.T.

Central Board of Direct Taxes taken steps to fill up vacant posts through Government recruitment agencies like Staff Selection Commission (SSC) and Union Public Service Commission (UPSC) to ensure that there is no let up in the collection of revenue on account of delay in filling up of vacancies.

CHAPTER III

RECOMMENDATIONS/OBSERVATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE INVIEW OF GOVERNMENT’S REPLIES

Recommendation No.9

Anonymous donations

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.

Reply of the Government

The term “charitable purpose” as defined in sec 2 (15) in the Income-tax Act, 1961(Act) includes relief of the poor, education, medical relief, and the advancement of any other object of general public utility provided certain conditions prescribed in this regard are satisfied. Under the Act, charitable institutions are eligible for tax exemptions u/s sec 11 subject to the fulfilment of prescribed conditions. Philanthropy like charity, also intends to do good to all mankind by providing charitable funds as well as services and supportive efforts but in a more strategic and sustained manner. Therefore, all philanthropic activities fall within the ambit of “charitable purpose” defined in the Act and treated similarly for tax purposes.

It has been specifically provided that exemption from taxation of anonymous donations would be applicable to any trust or institution created or established wholly for

(a) religious purposes or

(b) religious and charitable purposes provided the anonymous donations are not for the purpose of running a university or education or medical institution or hospital.

Creating any other category such as 'philanthropy' within the ambit of 'charitable purposes' in order to exempt such trust or institution from the taxation of anonymous donations would adversely affect the efficacy of the provision which has been brought about to curb the practice of channelizing unaccounted money by way of anonymous donations.

CHAPTER IV

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

Recommendation No.3

Acquisition of anti-Smuggling Equipment

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.

Reply of the Government

The decision regarding the type of scanner to be procured was taken by the Department in 2005 and Committee on Non Plan Expenditure (CNE) approval obtained on 14.02.2006 for procurement of 4 fixed X-ray scanners and 3 mobile Gamma ray scanners. Subsequently, the proposal to procure 7 Truck / Container Scanners at an estimated cost of Rs. 172 crore was approved by the Cabinet Committee of Economic Affairs (CCEA) on 27.10.2006.

The Government will take every possible step to ensure that the funds allocated for the procurement of 7 Container Scanners are fully utilized during 2008-09.

Recommendation No. 4

Rewards

The Secret Service Fund administered by Department of Revenue is utilized 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.

Reply of the Government

The recommendation of the Committee to evolve a mechanism to link instances of information given by informers with final revenue generated by such instances has been examined. The quantum of extra taxes realisable is determined only after all the assessments have become final and no appeal is pending or filed and the time for filing of appeal has expired. The time lag between the information given by the informer and the final demand realised which is attributable to such information furnished by the informer is such that a

mechanism to correlate information gathering and final revenue collected is not readily possible.

No case of misuse and deprivation of the informer of their due share has been reported.

Committee's recommendation that the Department should have a fresh look as to what refinement can be made in the light of experience gained over the years has been duly considered. The Reward Guidelines to informers after careful examination has been revised by the CBDT and fresh guidelines have been issued on 29.11.2007 w.e.f. 01.12.2007 to further expedite and streamline the disbursement of reward to the informers.

The CBEC too has examined its old reward scheme and comprehensively revised the reward guidelines in 2005.

The scheme is operating fairly smoothly in CBEC and CBDT. The implementation is closely watched and any changes required will be made, as soon as it is needed.

CHAPTER V

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

Recommendation No.7

Tax Code

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.

Reply of the Government

There have been a number of amendments to the Income Tax Act, 1961 since September, 2006 when the ATR on the 52nd Report was sent by the Department of Revenue..

The Bill relating to the Direct Taxes Code and the Discussion Paper thereon is in an advance stage of preparation. It can be expected to be released to the public for discussion within the next one month.

Recommendation No.10

Benami Transactions (prohibition) Act, 1988

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.

Reply of the Government

The file pertaining to the matter is under submission to the Finance Minister.

**NEW DELHI;
11 December, 2008
20 Agrahayana, 1930 (Saka)**

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

Minutes of the Tenth sitting of the Standing Committee on Finance

The Committee sat on Thursday, the 11th December, 2008 from 1600 hrs. to 1700 hrs. in Committee Room No. 'B', Parliament House Annexe, New Delhi

PRESENT

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 Rupchand Pal
7. Shri Suresh Prabhakar Prabhu

RAJYA SABHA

8. Shri Mahendra Mohan
9. Shri Vijay J. Darda
10. Shri Moinul Hassan
11. Shri K.V.P. Ramachandra Rao
12. Shri S.S. Ahluwalia

SECRETARIAT

- | | | |
|-----------------------------------|---|----------------------|
| 1. Shri R.C. Ahuja | - | Additional Secretary |
| 2. Shri A.K. Singh | - | Director |
| 3. Shri T. G. Chandrasekhar | - | Deputy Secretary |
| 4. Shri Ram Kumar Suryanarayanan- | | 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 67th Report on Demands for Grants (2008-09) of the Ministry of Finance (Departments of Economic Affairs, Expenditure, Financial Services and Disinvestment);

- (ii) Draft action taken Report on the recommendations/observations contained in the 68th Report on Demands for Grants (2008-09) of the Ministry of Finance (Department of Revenue).
- (iii) Draft action taken Report on the recommendations/observations contained in the 69th Report on Demands for Grants (2008-09) of the Ministry of Planning.
- (iv) Draft action taken Report on the recommendations/observations contained in the 70th Report on Demands for Grants (2008-09) of the Ministry of Statistics and Programme Implementation.
- (v) Draft action taken Report on the recommendations/observations contained in the 71st Report on Demands for Grants (2008-09) of the Ministry of Corporate Affairs.

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

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

5. The Committee decided to defer consideration of the two draft Reports on (i) 'Flow of Credit to Agriculture Sector'; and (ii) 'Counterfeit Currency Notes in Circulation', to a subsequent sitting.

The Committee then adjourned.

(a) Modification made in Chapter-I of the draft action taken report on the 67th Report on Demands for Grants (2008-09) of Ministry of Finance (Departments of Economic Affairs, Expenditure, Financial Services and Disinvestment).

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(b) Modification made in Chapter-I of the draft action taken report on the 68th Report on Demands for Grants (2008-09) of Ministry of Finance (Department of Revenue).

Para	Line	Modification
19	-	Insert the following sentence at the end of the para “Further, the Committee would like the Ministry to conduct a high level inquiry into the entire matter and submit a report to the Committee within a period of one month from the presentation of this Report”.

(c) Modification made in Chapter-I of the draft action taken report on the 70th Report on Demands for Grants (2008-09) of the Ministry of Statistics and Programme Implementation.

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(d) Modification made in Chapter-I of the draft action taken report on the 71st Report on Demands for Grants (2008-09) of the Ministry of Corporate Affairs.

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APPENDIX

(Vide Para 3 of the Introduction)

ANALYSIS OF THE ACTION TAKEN BY GOVERNMENT ON THE
RECOMMENDATIONS CONTAINED IN THE SIXTY-EIGHTH REPORT OF THE
STANDING COMMITTEE ON FINANCE (FOURTEENTH LOK SABHA) ON
DEMANDS FOR GRANTS(2008-2009) OF THE MINISTRY OF FINANCE
(DEPARTMENT OF REVENUE)

	Total	% of Total
(i) Total number of recommendations	10	
(ii) Recommendations/observations which have been accepted by the Government (Vide Recommendations at Sl. Nos. 1,2,5, 6 & 8)	5	50.00
(iii) Recommendations/observations which the Committee do not desire to pursue in view of the Government's replies (Vide Recommendations at Sl. No. 9)	1	10.00
(iv) Recommendations/observations in respect of which replies of the Government have not been accepted by the Committee (Vide Recommendations at Sl. Nos. 3 & 4)	2	20.00
(v) (Recommendation/observation in respect of which final reply of the Government is still awaited (Vide Recommendations at Sl. Nos. 7 & 10)	2	20.00