

29

**STATUS OF IMPROVEMENT OF
EFFICIENCY THROUGH THE
"RESTRUCTURING" OF THE INCOME
TAX DEPARTMENT**

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

**PUBLIC ACCOUNTS
COMMITTEE
2006-2007**

TWENTY-NINTH REPORT

FOURTEENTH LOK SABHA



**LOK SABHA SECRETARIAT
NEW DELHI**

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PUBLIC ACCOUNTS COMMITTEE (2006-2007)

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MINISTRY OF FINANCE
(DEPARTMENT OF REVENUE)



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**COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE
(2006-2007)**

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INTRODUCTION

I, the Chairman, Public Accounts Committee, as authorised by the Committee, do present this 29th Report relating to "Status of improvement of efficiency through the 'Restructuring' of the Income Tax Department" on Chapter I of Report of C&AG of India for the year ended 31 March, 2004 (No. 13 of 2005), Union Government (Direct Taxes—System Appraisals).

2. The Report of the C&AG of India for the year ended 31 March, 2004 (No. 13 of 2005), Union Government (Direct Taxes—System Appraisals) was laid on the Table of the House on 6th May, 2005.

3. The Committee took the evidence of the representatives of the Ministry of Finance (Department of Revenue) on the subject at their sitting held on 15th July, 2005. The Committee considered and finalised this Report at their sitting held on 20th July, 2006. Minutes of the sittings form Part-II of the Report.

4. For facility of reference and convenience, the Observations and Recommendations of the Committee have been printed in thick type in the body of the Report and have also been reproduced in a consolidated form in Appendix to the Report.

5. The Committee would like to express their thanks to the officers of the Ministry of Finance (Department of Revenue) for the cooperation extended by them in furnishing information and tendering evidence before the Committee.

6. The Committee place on record their appreciation of the assistance rendered to them in the matter by the Office of the Comptroller and Auditor General of India.

NEW DELHI;
24 July, 2006

2 Sravana, 1928 (Saka)

PROF. VIJAY KUMAR MALHOTRA,
Chairman,
Public Accounts Committee.

REPORT

STATUS OF IMPROVEMENT OF EFFICIENCY THROUGH THE 'RESTRUCTURING' OF THE INCOME TAX DEPARTMENT

I. Introductory

Matters relating to the levy and collection of all Direct Taxes are looked after by Central Board of Direct Taxes (CBDT) which functions through the Income Tax Department. The major objectives set down for Income Tax Department are as follows:—

- (a) Collection and supply of Information to Central Board of Direct Taxes regarding (i) assessments completed; (ii) Concealments detected; (iii) Penalties levied; (iv) Prosecutions launched; (v) Tax recovered; (vi) Tax in arrears; and (vii) Progress of appeals.
- (b) Expediting the completion of assessments, hearing of appeals and collection of dues.
- (c) Suggesting measures for adding to the effectiveness of the Department in dealing with cases more expeditiously and adequately.
- (d) Conducting Searches and Seizures in suspected cases.
- (e) Making survey operations in order to bring more tax payers in the tax net.
- (f) Checking evasion of tax and accumulation of unaccounted wealth.
- (g) Allotment of Permanent Account Number (PAN) etc.

2. The tax base of Income Tax Department had been witnessing a steady growth in the recent past. An exponential increase in volume of work over the years was considered to have led to problems such as :—

- increase in pendency of income tax assessments,
- increase in number of stop filers,
- increase in arrears of taxes,
- increase in the number of taxpayers per Commissioner of Income Tax (CIT),
- deterioration in span of control at other levels that undermined efficiency and effectiveness,
- increase in average delay in issue of refunds resulting in huge outgo of interest,
- virtually inoperative existing manual system due to unprecedented growth in tax payers and large volumes of work breeding inefficiency, harassment to tax payers and corruption, and

- deteriorating career prospects of officers in the Indian Revenue Service at a fast pace making them lag behind other comparable Central Services.

3. Realising the above factors, the Central Board of Direct Taxes (the Board) proposed to the Union Cabinet in July 2000, a scheme of restructuring of the Income tax department to improve **efficiency** and **effectiveness** through induction of technology.

Objectives

4. The main objectives behind the introduction of restructuring and the achievement of the objectives set out in the proposal for restructuring were :—

- (a) to improve the functional efficiency and effectiveness by rationalizing the structure, standardizing the work norms and induction of technology;
- (b) to reduce cost of collection substantially below the cost in 1997-1998 of 1.34%;
- (c) to increase productivity in terms of the number of tax payers per employee as on 1.4.97;
- (d) enhancing collection through bringing efficiency in assessment, issue of refunds, post-assessment collection and disposal of appeals ; and
- (e) Improved services to tax payers.

II. Proposal

5. It was felt, after an ‘in-house’ exercise undertaken in the department (Mishra Committee Report, 1998), that any meaningful improvement in tax administration could come only through a ‘comprehensive global solution’ that provided for full-scale induction of information technology. This would improve taxpayer service, provide a user-friendly environment and enable handling of growing volumes of workload.

6. The proposal aimed, therefore, to restructure the department, retrain and reorient its personnel through:

- functionalization, to increase productivity,
- increase in the number of officers rationalizing the span of control for better supervision, control and management of workload,
- improvement of tax payer services, and
- reorientation, retraining and re-deployment of surplus staff by increasing the levels of existing work norms and providing appropriate incentives like promotions commensurate with increased productivity.

7. Accordingly, the proposal involved creation/abolition of various posts in the department. Overall strength of the department, consisting of 57,989 posts before restructuring, was to be decreased to 55,234 after restructuring resulting in net decrease

of 2,755 posts. The number of officers in higher cadres was increased whereas in the lower cadres, the number was decreased as shown in the following table :—

Strength of Officers

Post	Strength before restructuring	Strength after restructuring	Increase in Strength
CCIT	36	116	80
CIT	402	698	296
Addl CIT	339	469	130
JCIT	453	647	194
DCIT	1033	1240	207
ACIT	648	734	86
ITO	3261	4207	946
Total	6172	8111	1939

8. As the total number of tax payers had gone up from 160 lakh as on 1 April, 1997 to 250 lakh as on 1 April, 2000, the effective span of control would be over 1 lakh tax payers per CIT, 33,000 per Range and 6,600 per Ward. The proposal apparently recognized the fact that the number of employees need not increase continuously with increase in number of taxpayers.

9. Redressal time of grievances of tax payers at the first level of appeals viz. CIT (Appeals) was sought to be reduced from 18 months to 6 months in line with internationally accepted norms. It was projected that this would release substantial tax revenue locked in appeals and reduce uncertainty for taxpayers. Finally, direct tax laws, rules, administrative rules and guidelines were decided to be amended or relaxed as found necessary after following prescribed procedure in order to give full effect to the proposals.

Proposed impact or benefits of restructuring

10. In view of the fact that the introduction of the scheme of restructuring of Income Tax Department would have a significant impact, the following benefits were proposed in the proposal submitted to Cabinet.

Standardization of Work norms:— As work norms were to be standardized for all employees with reference to the number of tax payers, every employee was expected to assume ownership of organizational goals resulting in higher productivity and effectiveness. **According to Audit, no mention was made in the proposal as to when and with respect to which data, the work norms would be standardized.**

Downsizing:— There was to be downsizing of income tax bureaucracy by 4.75 per cent. Stagnation was expected to be reduced at all levels, which was to improve employee morale and prepare the department for induction of technology.

Cost Implications:— By applying incremental cost method, a saving of Rs 3.05 crore in the short run, on salaries and wages under the 'current' rates of DA and rules for other perquisites as a result of the proposal was projected. Accordingly, no additional

expenditure was provided under this head. It was also mentioned that by adopting the 'Mean Pay Method', based on mean pay in each scale for estimating the costs of creating new posts, the financial implication of restructuring was estimated at Rs. 42 crore. It was expected that consequent to modernization and computerization, average cost of collection would fall inspite of the estimated financial cost of restructuring. **The mechanism of working out the cost of collection and the allocation of appropriate 'weightage' to pre-assessment collection that did not exactly test the investigation or assessment or recovery skills of the officers of the department, were not spelt out in the proposal to the Cabinet.**

Productivity:— Based on the workload relating to tax payers registered as on 1 April, 1997, it was proposed that there would be an estimated 200 per cent increase in productivity at organizational level. Here also, **the meaning of 'productivity', the method of monitoring or verifying the increase, if any, were not mentioned in the proposal to the Cabinet.**

Additional Revenue Gains:— Consequent to restructuring, the Department was expected to be well placed to deal with key areas of non-compliance. This, in turn, was to have led to an **'immediate'** impact on revenues due to the enhanced ability to deal with 'stop-filers' estimated at Rs.2800 crore. Another Rs.6000 crore was estimated to be the additional impact on revenues from disposal of pending assessments. Increase in the number of first appellate authorities and Tax Recovery Officers (TRO) were expected to contribute an estimated Rs.7500 crore to the revenues. Interest burden on refunds was projected to come down by Rs.350 crore per annum with early issue of refunds. The long run impact in increased tax buoyancy was expected to be much more. **The definition of 'immediate' impact on revenues was conspicuous by its absence in the proposal to the Cabinet.**

Chain System of Internal Audit:— A new chain system of internal audit was separately introduced in December 2001 by the Board in the field offices ostensibly with a view to strengthening the internal check of assessments and refunds besides expanding on overage and involving personnel from all assessment circles. Prior to restructuring, the 'Internal Audit' set up, consisting of Internal Audit Parties (IAP) and Special Audit Parties (SAP) was a separate entity within the Department. New system of internal audit was introduced after approval of the scheme of restructuring by the Cabinet, under the administrative powers of the Board.

Justification for bringing the matter before the Cabinet

11. The Committee also desired to know the justification for bringing the matter before the Cabinet. In this regard, the Ministry stated :—

“The scheme of restructuring entailed creation and abolition of posts at various levels, which requires the approval of the cabinet. The rationalization of manpower was considered necessary to make the organization compatible with modernization of administrative structure and work processes. Though all the aspects of restructuring did not require the Cabinet's approval, the proposal was taken to the Cabinet in its entirety to present a complete picture.

In addition to the objectives the promises made were that there would be an immediate saving of Rs. 3.05 crore on account of manpower restructuring and there would be immediate revenue gains of Rs. 16,500 crore. The first promise was fulfilled as the number of posts required to be abolished were actually abolished. As regards increase in revenue collection, it has increased from Rs. 69198 crore in F.Y 01-02 to Rs. 83088 crore in F.Y. 02-03, Rs. 105088 crore in F.Y. 03-04 and Rs. 131918 crore in F.Y. 04-05, *i.e.*, the revenue collection has increased by Rs. 63613 crore in the three years after restructuring”.

III. Conditions of approval

12. The Cabinet approved the proposal of the Board/Department of Revenue on 31 August 2001 subject to the following conditions:—

- An ‘MOU’ should be entered into between the Government and the Board in regard to increased revenue generation.
- In order to reduce public harassment and ensure accountability, specific steps needed to be taken to strengthen the vigilance and accounting machinery in the Board, and
- The re-deployed manpower needed to be fully trained in computer technology within a period of five years so as to improve the tax administration.

13. In response to the Committee’s query as to whether all the conditions have been fulfilled, the Ministry replied that the last two conditions have been addressed. As regards the first condition, the matter was taken up and discussions were held at the level of Secretary. Final decision has not yet been taken.

14. Explaining the reasons for the memorandum of understanding not being entered into even after about five years of approval of the proposal, the Ministry stated:—

“The matter was taken up and discussions were held at the level of Secretary. Final decision has not yet been taken. Most of the objectives have been fulfilled. MOU not being entered into has not affected performance”.

15. Replying to a related query regarding Memorandum of understanding, the Secretary (Revenue) explained during evidence:—

“We have not been able to enter into the MOU but whatever was to be gained from the MOU in terms of revenue generation, improvement, in efficiency any productivity, we have been able to achieve”.

16. When asked about the latest position in respect of MOU, the Secretary (Revenue) added:—

“It is not under active processing at present”.

17. One of the conditions subject to which Cabinet approved the proposal of Board stipulates that the re-deployed manpower needed to be fully trained in computer technology within a period of five years so as to improve the tax administration. At the instance of the Committee, the Ministry have furnished the following details of the

number of re-deployed employees who have received training since the beginning of the scheme:—

	Officers	Staff	Total
Trained upto March, 2002	10201	18103	28304
2002-2003	3392	1692	5084
2003-2004	2590	5743	8333
2004-2005	3446	3326	6772
Grand Total	19629	28864	48493

According to the Ministry: —

- (i) some Officers/Staff have received training more than once,
- (ii) training labs of 21 terminals have been set up at 40 stations, and User Manuals have been provided in hard copy and on PCs,
- (iii) self learning Tutorials on CDs provided to all Assessing Officers, and,
- (iv) Processing of returns of income is taking place on computers at all stations.

In addition to the above, shop floor training is imparted to the officers and staff throughout the year”.

IV. Audit Review

18. This Reports is based on the Audit Review contained in Chapter-I of the Report of the Comptroller and Auditor General of India for the year ended 31 March, 2004, No. 13 of 2005, Union Government (Direct Taxes) relating to “Status of improvement of efficiency through the ‘Restructuring’ of the Income Tax Department”.

V. Offices/CsIT/Units selected for review

19. Audit selected nine filed offices for study and examination of the relevant and concerned records. The selection was done on the basis of their contribution to the total collections from Direct Taxes. The selected offices were, Andhra Pradesh, Delhi, Gujarat, Karnataka, Madhya Pradesh, Maharashtra, Tamil Nadu, Uttar Pradesh and West Bengal.

VI. Period covered

20. Audit attempted to examine the relevant records of the Department for the period 1999-2000 to 2003-2004, *i.e.* two years prior to and two years after the restructuring, including the year of restructuring.

VII. Audit Objectives

21. Audit undertook the review with a view to ascertaining :—

- The extent of achievement of promised ‘immediate’ revenue gains,

- The status of fulfilment of conditions laid down by the Cabinet while according approval,
- The extent of improvement in efficiency after restructuring in areas such as assessments, issue of refunds, disposal of appeals, increased revenue generation, quality of assessments, effectiveness of anti-tax evasion measures, widening of tax base, number of tax payers serviced/handled, tax payer grievances and so on,
- Whether there were verifiable and documented means of ensuring that the achievements are objectively measured, recorded and internally verified,
- That all direct and indirect costs involved in implementation of the scheme of restructuring have been properly and adequately accounted for and all expenditure has been incurred with the sanction of the competent authority in accordance with the prescribed procedure, and
- The extent of improvement, consequent to the change in or augmentation of the system of internal control and monitoring mechanism.

Audit findings

Staff position

22. One reason for restructuring of the department was stated as poor career management and promotion prospects resulting in demoralization of officers in the Indian Revenue Service making them lag behind other comparable Central Services. At the same time, downsizing of the Income Tax bureaucracy was estimated at 4.75 percent. Accordingly, various posts were created/abolished in the department.

23. As regards the administrative set-up of the Income Tax Department before and after re-structuring, the Ministry have informed in their note as under:—

Sl. No.	Post (Pre-restructuring)	Re-designated Post	Sanctioned strength (Pre-restructuring)	Sanctioned strength (Post restructuring)
1	2	3	4	5
1.	CCIT	CCIT	36	116
2.	CIT	CIT	402	698
3.	Addl. CIT	Addl. CIT	339	469
4.	JCIT	JCIT	453	647
5.	DCIT	DCIT	1033	1240
6.	ACIT	ACIT	648	734
7.	ITO	ITO	3261	4207
8.	ITI	ITI	8106	9490
9.	Supr-1	Sr. AO	5	5
10.	Supr-1	AO-II	35	35

1	2	3	4	5
11.	Supr-I	AO-III	280	774
12.	Supr-II	Office Supdt.	710	2468
13.	HC/Asstt	Sr. Tax Asstt	2240	8030
14.	TA	-	5609	-
15.	UDC	Tax Asstt	9408	8931
16.	LDC	LDC	6947	311
17.	RC	RC	223	-
18.	Sr. PA	Sr. PA	364	814
19.	Steno-I	Steno-I	1255	1000
20.	Steno-II	Steno-II	2510	2002
21.	Steno-III	Steno-III	2511	2002
22.	DPA Gr B	DPA Gr B	55	55
23.	DPA Gr A	DPA Gr A	81	104
24.	DPA Gr D	-	23	-
25.	DPA Gr C	Sr. Tax Asstt	35	35
26.	DPA Gr B	Sr. Tax Asstt	264	264
27.	DPA Gr A	Tax Asstt	394	394
28.	NS	NS	3172	3172
29.	GES.OPR	GES.OPR	23	23
30.	Jamedar	Jamedar	144	144
31.	Daftry	Daftry	695	3108
32.	Peon	Peon	6692	3968
33.	Watchman	Watchman	2322	2322
34.	Sweeper	Sweeper	435	435
35.	Farash	Farash	276	276
36.	Mali	Mali	45	45
37.	Others	Others	62	62

24. The Committee wanted to know whether the present set-up an existing staff strength is adequate, trained and fully equipped with latest information of tax laws for overall management of Department including finance and administration. In a note furnished to the Committee, the Ministry stated that the present set-up is adequate but the vacancies at various levels of the staff are a cause for concern. The vacancies have arisen mainly due to less direct recruitment as per DoP&T's instruction dated 16.5.2001 whereby only one-third of the vacancies can be filled up by direct recruitment. The existing staff is well trained and capable of handling the tasks assigned to them. Besides training is continuously imparted by the National Academy of Direct Taxes and the Regional Training Institutes, as also at different other institutes in India and abroad.

25. Audit has pointed out that though, there was expected to be an overall decrease of 2,755 posts in the staff strength of the department, in real terms the sanctioned strength of the supervisory, assessing, appellate and recovery officers increased whereas in the lower cadres the sanctioned strength decreased. Audit scrutiny has revealed that in Andhra Pradesh, Delhi, Gujarat, Karnataka, Maharashtra, Madhya Pradesh, Tamil Nadu, Uttar Pradesh and West Bengal charges as many as 3,750 posts from Inspector and below had remained unfilled as on 1st April, 2003. Not only were there vacancies in almost all cadres in tax recovery units but also the sanctioned strength itself had declined from 2,867 in 2001-2002 to 2,498 in 2003-2004.

26. While forwarding their comments with reference to increase in sanctioned strength of higher cadres and decrease in those of supporting staff of lower cadres during the course of restructuring, the Ministry stated as under:—

“The increase in the strength of the higher cadres was done with a view to rationalizing the span of control, standardization of work norms considering the specific nature of functions under the Income Tax Act. The strength of the lower cadres was rationalized to reorient and redeploy the existing manpower to make it compatible with the on-going computerization and induction of technology. In fact, post-restructuring, the performance levels on various parameters, as pointed out by audit in the above question, have improved, *viz.* collection of arrear demand and time taken for issuance of refunds, and it has neither remained constant nor has it deteriorated. In fact, the performance levels have improved. In respect of launching of prosecutions, prosecution is launched after finalization of appeals against assessment and penalty orders. Earlier large numbers of prosecutions were launched for technical offences. That explains the greater numbers of convictions and compounding of earlier period. However, since a few years the stress is on launching of prosecutions for non-technical offences. Instructions have been issued that at least one prosecution (non-technical) be launched by every CIT during F.Y. 2005-06.”

27. On being asked as to why the uniformity of various posts at different levels has not been maintained in all the CCIT charges, the Ministry, in their reply, stated as under:—

“Audit has commented that the maximum deviation between the sanctioned posts and working strength was in Delhi Region. The reason for the working strength of CsIT / Addl. CsIT exceeding the sanctioned strength in Delhi region is that, as on date, there are 9 Officers on Special Duty (Os.S.D.) in the grade of CIT posted to Delhi in excess of the sanctioned strength of Delhi region due to requirement of officers in the Directorates at Delhi, which are the field arm of the Central Board of Direct Taxes, *viz.* Systems, Vigilance etc. However, the excess posts have been adjusted against vacancies in other regions, depending upon workload and other factors, to ensure that the existing strength in the grade does not exceed the sanctioned strength throughout the country. Similar is the case in respect of the Addl. / Jt. Cs.I.T.

As regards shortage of officers in the grade of ACIT / DCIT this is mainly due to less direct recruitment as per DOP&T's instruction dated 16.5.2001 whereby only one-third of the vacancies can now be filled up by direct recruitment. As a result, matching number of promotion from Group 'B' cadre also gets automatically curtailed. Besides, delay occurs in holding DPC for promotion often caused by service litigations. It takes considerable time to get direct recruit candidates through the Civil Services Examination. Less recruitment in earlier years is also another reason."

28. According to Audit, all posts sanctioned in pursuance of restructuring have not been filled up. Reasons for vacancies were generally stated to be promotion to the higher grade, transfer to other regions and retirement/VRS/death of officers.

29. In response to a query as to whether such eventualities were considered while working out the staff requirement, the Ministry have stated that the vacancies were considered while formulating the scheme. However, the constraints faced in filling up the vacancies in various cadres have resulted in many posts remaining vacant.

30. Explaining the position in this connection, the Secretary (Revenue) stated during evidence:—

"The restructuring is complete except in the sense that there are certain posts at the lower level which will have to be filled.

We are in discussion. We had moved a proposal to the Cabinet regarding these posts. Basically, the idea is that according to the DoPT regulations, we can fill up only one-third of the direct recruitment posts arising every year. We feel that in a revenue collection department that will be very difficult to adhere to. This was taken up with the Cabinet and the Cabinet has referred it to the Committee of Secretaries which is meeting to discuss this very issue. A decision will be taken because similar decision in respect of the Central Board of Excise and Customs has already been taken."

Cost implication

31. No additional expenditure was specifically provided for implementation of the scheme of restructuring though financial implication, by adopting "Mean Pay Method" was estimated at Rs. 42 crore.

32. The Audit Paragraph indicates that the department had not maintained separate accounts for expenditure relating to the restructuring. To analyze the impact of the restructuring on the expenditure of the department, various sub-head wise details were called for. The Board informed that the details of expenditure on office furniture, accommodation, office building, telephone expenses, vehicles and other office expenses could not be provided as no such separate details were maintained.

33. The Board in their letter dated 20 August, 2001 had asked all the cadre controlling CCsIT to submit revised estimates of expenditure for budget of 2001-02 including additional funds required under different heads on account of

restructuring. Detailed note was also required to be furnished showing the method adopted in working out the additional requirement.

34. According to Audit, the Board, did not have a mechanism to monitor the progress of its promise of a saving of Rs. 3.05 crore on salaries and wages consequent to upgradation of posts after restructuring.

35. The Committee desired to know the approximate expenditure incurred on account of restructuring now. The Ministry *vide* their written information stated as under:

No figures regarding approximate expenditure can be furnished as no separate accounts were maintained. However, the cost of collection has decreased progressively. For ready reference the relevant statistics is reproduced hereunder.

Cost of Collection

Year	Total Collections (Rs. Crore)	Total Cost (Rs. Crore)	% Age
1997-98	45685	612.18	1.34%
1998-99	46600	852.00	1.83%
1999-00	57959	911.42	1.57%
2000-01	68,305	934.89	1.36%
2001-02	69198	1022.09	1.48%
2002-03	83088	1015.49	1.22%
2003-04	105088	1066.45	1.01%
2004-05	131918	1178.10	0.89%

36. While giving justification for non-maintenance of separate accounts for the scheme of restructuring, the Ministry stated:—

“The booking of expenditure under various heads is done as per the Government of India order O.M. No. F-1 (104)-B(AC)/94 dated 19th December 1994, which was issued on advice of the Comptroller and Auditor General (CAG) of India. The monitoring of expenditure is done with reference to the allocations made under the prescribed budget heads as shown in the Detailed Demands for Grants.”

37. The Secretary Revenue, while commenting on this, stated during evidence:—

“If we look at the cost of collection, again we find and if you take the year 1998-99, the percentage of total cost of collection to the total collection was

1.83 per cent. In the pre-structuring year, that is 2000-01. If we take it, it was 1.36 per cent, but we have brought it down to 0.89 per cent in 2004-05. The Committee would be interested to know that this is amongst the lowest in the world. In the case of Australia, it is 3.09 per cent; Canada, it is 2.69 per cent; Israel, it is 1 per cent; Turkey, it is 1.37 per cent; Singapore, it is 0.9 per cent; Hong Kong, it is 1.14 per cent; USA, it is 0.48 per cent; Thailand, it is 0.8 per cent; and Norway, it is 0.6 per cent”.

Results of promised benefits of restructuring

38. The Department was expected to be well placed to deal with key areas of non-compliance consequent to restructuring, which in turn was to have ‘immediate’ impact on revenues. The term ‘immediate’ was not defined. Additional revenue gains of Rs. 2,800 crore from dealing with stop filers, Rs. 6000 crore from disposal of pending assessments, Rs. 7500 crore by increasing the number of first appellate authorities and TROs and Rs. 350 crore from reduced burden of interest on refunds were estimated.

39. While defining the term ‘immediate’, the Ministry stated:—

“The import of the term “immediate” may be understood contextually. The restructuring of the Income-tax Department was a large-sized exercise. The impact of such an exercise has to be appreciated with reference to the results in key areas of functioning in the years immediately following restructuring”.

40. The Ministry have further explained:—

“While cash collection out of arrear demand was Rs. 3,930 crores during F.Y 2001-02, it rose to Rs. 7,084 crores in F.Y. 2004-05. Similarly, collection out of current demand was Rs. 4,326 crores during F.Y 2001-02 and it rose steeply to Rs. 15,632 crores in F.Y. 2004-05. Thus, although separate figures of additional revenue gains from dealing with stop filers, disposal of assessments and appellate orders and recovery effort of TROs are not ascertainable, the increased collections from out of arrear and current demands are clear pointers at such additional revenue gains.

Besides, the scrutiny and enforcement activities of the Department also induce culture of compliance as is evident from the figures of revenue collections given herein before. The eventual revenue gains have been much more than what was expected during formulation of restructuring proposal. As a result of persistent monitoring and concerted action, the revenue has grown from Rs. 68,305 crore in F.Y. 2000-01 to Rs. 1,31,918 crore, giving a growth of 93.13% in four years”.

41. Audit attempted an analysis of each area of additional revenue gain. Results of the analysis are given below:—

(i) Collection from Direct Taxes

42. Details of Direct Taxes collections for the period from 1991-92 to 2003-04 as furnished by Audit are given below:—

(Rs. in crore)

Year	Pre-assessment collections			Post assessment collections		Total collection	Refunds	Net collections
	TDS	Advance Tax	Self Asstt	Regular Asstt	Other Receipts			
1991-92	5976	8467	1177	1568	803	17990	3408	14582
1992-93	6209	9918	2038	2114	884	21164	3655	17509
1993-94	7283	11908	2407	3097	683	24566	5387	19179
1994-95	9604	14495	2414	3013	1011	30537	4686	25851
1995-96	13946	16349	2814	5769	1196	40073	7999	32074
1996-97	15334	19679	3289	5532	2528	46363	9562	36801
1997-98	13788	21061	4245	4954	1637	45685	8568	37117
1998-99	16258	24365	4736	6825	2841	55024	10255	44769
1999-00	18546	30849	4509	6766	7165	67835	11488	56347
2000-01	28213	32614	5841	8121	5420	80211	12751	67460
2001-02	32672	34094	5479	9492	4094	85833	17220	68613
2002-03	36568	49158	6414	10745	2184	105069	22031	83038
2003-04	42955	58713	9852	16015	3150	130685	25736	104949

43. According to Audit, though collection from direct taxes have increased at a higher growth rate in the two years post restructuring, the department did not maintain any analysis of the reasons for this growth so as to establish or correlate the same entirely or at least substantially to the positive outcome of and improvement of efficiencies in assessment and collection functions consequent to the implementation of the scheme of restructuring.

44. Audit has further pointed out that in the 'Exit Conference', the Board accepted that such details were not available with the Board/Department. It was, however, stated by the Board that once the process of computerization was completed, such information would be available.

45. When the Ministry was asked as to how and on what basis can the increase in direct tax collections be attributed to the scheme of restructuring, they have replied in a note that the pre-assessment collections have contributed substantially to the overall collection. They have further stated in this regard that although the growth of the economy would lead to increase in pre-assessment collection, in the case of direct taxes, the increase in collection was 3 to 4 times the growth in GDP. They thus contended that this was a clear indication of the fact there has been significant effort on the part of the Department in ensuring substantially higher pre-assessment collection.

46. An analysis of the growth trends made by the Ministry after excluding 2001-02 which was the year of transition showed the following position:—

Period	Average growth rate of pre-assessment collections	Average growth rate of post-assessment collections	Growth rate of gross collections	Average growth rate of net collections
Pre-restructuring	17.68%	24.17%	18.37%	18.82%
Post-restructuring	24.23%	21.7%	23.4%	23.71%

47. While elaborating on this issue, the Ministry further informed that:—

“As can be seen from the above table, though there is a slight decline in the growth rate of post-assessment collections in the post-restructuring period from 24.17% to 21.7%, the post-assessment collections have increased substantially in absolute terms. Besides, collections under the Voluntary Disclosure of Income Scheme and Kar Vivad Samadhan Scheme at Rs. 9803 crore and Rs. 738.74 crore were significant in boosting the post-assessment collections in F.Y. 1997-98 & 1998-99 respectively. On the other hand, there is noticeable increase in pre-assessment collections. However, the decline in post-assessment collections of less than three percentile points, in the background of substantial improvement in overall collections is not a reflection on the performance of the Department”.

48. When queried on the pre-assessment collections after re-structuring, the Ministry explained as below :—

“The very assumption that pre-assessment collections are not attributable to the efforts and skills of the Income Tax Department bears scrutiny. The prime objective of the Income Tax Department, apart from collecting the direct tax dues of the Government, is also to create sufficient deterrence so as to encourage voluntary tax compliance. Increased effectiveness of the Department in the areas of assessment, investigation and recovery leads to higher levels of voluntary compliance by the taxpayers, resulting in higher pre-assessment collections. Therefore, a significant part of the growth in the pre-assessment collections is attributable to the intensive monitoring and efforts made by the Income Tax Department.

Advance Tax, though paid before filing of return, is not completely left to the volition of the taxpayers. Rather, it is also closely monitored by the Department. Senior officers of the Department of the ranks of Chief Commissioners and Commissioners are under instruction of CBDT to monitor the advance tax payments made by top taxpayers every quarter, including analysing the quarterly financial results of the corporate assesses.

Search and seizure and survey actions are carried out by the Department and, as a result, substantial advance tax is paid by the assesses so searched/ surveyed in the year of search/survey. These actions have widespread deterrence effect,

as a result of which other assesses, particularly in similar / same business or profession, also voluntarily pay higher taxes. Thus, the Department's intensive role in higher collections under advance tax is but obvious.

As regards TDS, it may be pointed out that TDS administration is a major function of the Department and a substantial part of the TDS related work is undertaken by the Department before the assessment. TDS surveys are conducted by the Department to examine proper deduction of tax and proper deposit of the tax so deducted in the Government account. Workshops, meetings and seminars are organized to educate the tax deductors of their TDS liabilities. Letters are issued to assesses for proper application of TDS provisions in respect of new and unconventional transactions. All these efforts made by the Department go to enhance the collection under TDS in the pre-assessment period. The Department also facilitates the taxpayers in various ways in complying with the TDS provisions.

Self-assessment tax payments are also scrutinized. In several cases and substantial additional payments of self-assessment tax are made due to such scrutiny."

49. The Ministry also added in this regard that :—

"After the restructuring, the Department has taken various taxpayer-friendly measures with a view to encouraging voluntary compliance including:—

- (i) Time-bound refunds including electronic credit of refund in the taxpayer's bank account (ECS),
- (ii) Quick grievance-redressal system including call-centre support for PAN related grievances,
- (iii) E-filing of PAN application, on-line preparation of return, e-filing of return, etc.,
- (iv) Simplification of TDS returns, forms and procedures, and
- (v) Simplification of procedure for payment of tax through implementation of Online Tax Accounting System (OLTAS).

These measures, together with other tax-reform and taxpayer-service measures, have reduced the compliance cost to the taxpayer and have thus boosted voluntary compliance".

50. The Ministry thus sought to explain their position on the overall increase in tax collecting that :—

"As such the role of the Income Tax Department may be evaluated in terms of overall increase in revenue collections rather than confining the evaluation to increase in post-assessment collections. The pre-assessment collections

are also to a large extent directly related to various efforts made by the Department and to the cumulative impact of the work done in the area of investigation, assessment, recovery, prosecution, taxpayers service, etc. In the background of an average annual increase of 23.4% in gross collections and 30.2% in net collections during the three years following restructuring (2002-03 to 2004-05), as compared to 18.37% and 18.82% respectively in the pre-restructuring period (1991-92 to 2000-01), it emerges that increase in direct tax collections is largely attributable to the restructuring of the Income Tax Department”.

51. Further, during his deposition before the Committee, Secretary (Revenue) apprised the Committee as follows:—

“So far as revenue collection is concerned, the fact is that post-restructuring growth rates in revenue collection have been certainly out of the ordinary. If we look at the figures in 2000-01, total collection was Rs. 68,305 crore. It went up to Rs. 69,198 crore in 2001-02 to Rs. 83,088 crore in 2002-03 to Rs. 1,05,088 crore in 2003-04 and to Rs. 1,31,918 in 2004-05. In fact, during the last three years, the rate of growth has been 20.07 per cent, 26.48 per cent and 25.53 per cent. That is, over a period of three years we have grown 90.6 per cent. The mean rate of growth has been 30.2 per cent post-restructuring as against 11.39 per cent pre-structuring.

So far as direct tax to GDP ratio is concerned, it has gone up from 3.05 per cent in 2001-02 to 4.24 per cent in 2004-05. It is for the first time that we have crossed the 4 per cent mark in the direct tax to GDP ratio in the year 2004-05. Here again, while during the three pre-structuring years, the average tax to GDP ratio was 2.98 per cent, it has grown to 3.82 per cent in the three years post-restructuring, reaching 4.24 per cent in 2004-05. We hope to better this performance this year.

So far as improvement in efficiency is concerned, if we look at the tax ratio, the collection as compared to the GDP growth rate—if we see the growth rate of direct tax to GDP ratio as compared to GDP growth rate – we find that the tax GDP growth rate has been five times the GDP growth rate in 2002-03, around three times in 2003-04 and four times in 2004-05. It means that the direct tax to GDP ratio is growing at a much faster rate, even faster than the growth rate of GDP”.

52. Audit analysis of collections from 1991-92 to 2003-04 revealed that pre assessment collection as a percentage of total collection during the period 1991-92 to 2003-04 fluctuated between 80 and 88 whereas post assessment collection as a percentage of total collection varied from 20 to 12. During the period 1999-2000 to 2003-04, the share of pre assessment collection in the total collection rose from 79.46 percent to 85.33 percent whereas that of post assessment collection declined from

20.54 percent to 14.67 percent during the same period. The details in this regard are given below :—

Year	Pre-assessment collection as a percentage of total collection	Post assessment collection as a percentage of total collection
1991-92	86.83	13.18
1992-93	85.83	14.17
1993-94	87.92	15.39
1994-95	86.82	13.18
1995-96	82.62	17.38
1996-97	82.61	17.38
1997-98	85.57	14.43
1998-99	82.43	17.57
1999-00	79.46	20.54
2000-01	83.12	16.88
2001-02	84.17	15.83
2002-03	87.69	12.31
2003-04	85.33	14.67

53. During 'Exit Conference', the Board stated that increase in revenue was due to increase in efficiency after the restructuring of the department, which in turn had enabled them to process more summary assessments resulting in higher revenues. However, no data in support of Board's claim was made available.

54. The Committee, therefore, desired to know that as to how in the absence of the vital data and statistical information on performance, the Board is assuring itself of improvement in efficiency from its field formations. In reply, the Ministry stated:—

“The contribution of assessing officers is closely monitored and assessed by the Range heads, the CsIT concerned through the monthly CAP-I & II and the monthly DO (MCS) statistics. These monthly reports reflect the performance of the assessing officers in all major areas of work, including collection made by them”.

55. Further, details of additional demand realised through scrutiny assessments were not maintained and, percentage of additional revenue to gross collection was also not available with the Ministry.

(ii) Position of revenue collection in test checked cases

56. Audit made an attempt to analyse the position of revenue collection in test checked cases on the basis of income returned by assesses, additions made during assessments, total demand raised, pre-assessment payments, appeals filed with revenue effect and cases decided in favour of or against revenue at first appeal. The information on above lines could be collected only from selected offices in Hyderabad (Andhra Pradesh charge), Delhi, Mumbai, Pune, Nagpur, Nasik, and Thane (Maharashtra

charge), Bhopal and Indore (Madhya Pradesh charge), Tamil Nadu and Kolkata region (West Bengal charge).

57. Audit test checked 8539 cases in above charges and noticed that :—

- against the total demand of Rs.14,548 crore raised in these cases, only Rs.2820 crore of additional demand (19.4 percent) was raised as a result of assessment and investigation by the assessing officers,
- pre-assessment collections amounted to Rs.11728.94 crore which represented 80.6 percent of the total demand raised,
- appeals were filed in 857 of these 8539 cases involving revenue of Rs.903 crore. Only 180 cases (21.0 percent of appealed cases) involving revenue of Rs.86.32 crore (9.6 percent of appealed revenue) were decided in favour of revenue at the first appellate stage. Remaining 677 cases (79 percent of cases appealed against) involving revenue of Rs.816.83 crore (90.4 percent of revenue involved in these 857 cases) were either decided against the revenue or remained undecided.

58. Replying to the Committee's query as to whether the achievements made so far are satisfactory, the Ministry in their written note have stated:—

“The additional revenue gain, as envisaged in the Cabinet note, was Rs. 16,650 crore on account of focusing attention on certain areas of non-compliance by assesseees. The additional revenue gain on this account is Rs. 14,460 crore during the three years following restructuring. Besides, as also has been mentioned earlier, there has been phenomenal growth in revenue collection in the three years following restructuring. On the base year 2000-01, the growth upto 2004-05 has been Rs. 63,613/-, giving a growth of 93.13% in four years. In this background, the achievements are commensurate with the projection for collection of additional revenue and hence, are satisfactory”.

59. On being asked as to how the Ministry justified the improvement in quality of assessments, they stated:—

“Due to uniform and reasonable span of control, supervisory officers are able to closely monitor completion of assessments. As against random method of selection of scrutiny assessments, in vogue during the pre-restructuring period, data-based selection has been adopted in the post-restructuring period. The increased collection, from out of current demand during the post-restructuring period, is clearly indicative of improvement in the quality of assessments”.

Financial year	Collection out of current demand (Rs. Crore)
2001-02	4326
2002-03	7300
2003-04	10610
2004-05	15632

Uncollected demands

60. Every year thousands of crores of rupees are collected from Direct Taxes and almost equal amount remain uncollected at the end of the year. After restructuring of the department, position of uncollected demands has not changed much as given below:—

Year	Tax collected	Tax remaining uncollected	Percentage of total tax demand remaining uncollected
1991-92	14574	8461	36.73
1992-93	16752	9211	35.48
1993-94	19183	10780	35.98
1994-95	25851	22699	46.75
1995-96	32074	28970	47.46
1996-97	36801	33585	47.72
1997-98	37116	41230	52.63
1998-99	44769	44143	49.65
1999-00	56347	52970	48.46
2000-01	67460	56431	45.55
2001-02	68613	90177	56.79
2002-03	83038	67638	44.89
2003-04	104949	88017	45.61

61. It is seen from the above table that the percentage of uncollected demand had gone up to 56.79 in the year of restructuring of the Income Tax Department, i.e. 2001-02 from 45.55 in 2000-01. In 2002-03 and 2003-04, it came back to pre-restructuring level of about 45 percent.

62. The uncollected demand as a percentage of total demand in all the nine selected charges for the period from 1999-00 to 2003-04 was above the all India average implying that the percentage of total collection in these charges was below the all India average figures.

63. It has further been noticed that the ratios of gross and net tax arrears relating to Income Tax Department of India were significantly higher as compared to those of the national revenue agencies of other selected countries. Collection of tax arrears thus seems to be a significant problem in many of these countries and an acute problem in India.

64. There is also a large difference between gross arrears and net arrears in India signifying that a large portion of arrears in India would fall in the category of 'arrears not fallen due, amounts claimed to have been paid pending verification, amounts for which installment were granted and amounts stayed/kept in abeyance.

58. In their written information furnished to the Committee, the Ministry specified the position of collected and uncollected demands after restructuring is as under:

	(Rs. in crore)		
	2004-05	2003-04	2002-03
A. Arrear Demand			
1. Arrear Demand brought forward at beginning of year (Adjusted)	94063	74824	76313
2. Collections out of arrear demand	7084	5540	5470
3. Reduction out of arrear demand	20098	14014	22070
4. Unliquidated arrear demand at year end	66881	55270	48773
B. Current Demand			
1. Current Demand raised during the year (net of pre-paid taxes)	49130	43226	30817
2. Amount collected out of current demand	15632	10610	7300
3. Un-liquidated current demand	33498	32616	23517
C. Total Demand carried forward to next year (A4 +B3)			
Collected Demands (A2+B2)	22716	16150	12770
Uncollected demand (C)	100379	87886	72290

66. Explaining the reasons for higher percentage of uncollected demands in the selected field offices, the Ministry stated :—

“The jurisdiction of field offices, the nature and potential of cases, the circumstances of framing assessments and the degree of cooperation of assesseees in furnishing details/evidences requisitioned from them, are not uniform. That is the reason for related deviations between various field offices in the percentage of uncollected demand. For example, the huge demands, validly raised in cases of assesseees involved with the securities scam e.g. cases of late Harshad Mehta, Bhupen Dalal, Ketan Parekh, etc; cannot be collected due to various factors including operation of the Special Courts (TORTS) Act, 1992, inadequate assets, etc”.

67. Regarding remedial steps taken to improve the position, the Ministry submitted:—

“To improve the collection out of outstanding arrear demand, a Task Force on recovery has been constituted in the Ministry in 2004 to monitor this aspect of the Department’s work. In the Central Action Plan for 2005-06, separate recovery targets have been assigned to each cadre-controlling CCIT. Better results were achieved during FY 2004-05 due to monitoring of

collection/reduction of the arrear demand by the Task Force. The following table gives the relevant figures:

Period	Cash Collection	Reduction by Disposals of Appeals etc.	Total
F.Y. 2003-04	5540	14014	19554
F.Y. 2004-05	7083	20086	27169
Percent Increase over FY 2003-04	27.85%	43.33%	38.94%

68. The Secretary (Revenue) while deposing before the Committee also stated:—

“Again with reference to the uncollected demands, they have grown from Rs. 44,293 crore in 1998-99 to Rs. 1,00,379 crore in 2004-05. This looks a substantial amount but there are various reasons why the bulk of this amount, may be half of this amount or more cannot be collected for various reasons.

There are, for example, certain scam cases where it becomes not possible to collect huge demands are raised on the basis of figures as estimated plus interest but we are not able to do it. There are ex-parte orders issued where the attending officer does not get a chance to examine all the relevant documents to arrive at certain conclusions and the seized assets are inadequate to meet the demands.

Another reasons relates to the interest charged under section 220. In case the principal is not recovered, the chance of recovering the interest is ‘NIL’. However, interest under section 220 is levied following numerous audit objections regarding stop filers. There are many reasons why they may ceased to have taxable income particularly with the threshold limit being raised. They may move from one place to another and if proceedings are initiated against all stop filers, that could present massive logistical and technical problems. However, we are pursuing the cases of stop filers on a sampling basis and we have decided to issue letters first. The follow-up action would be taken after that”.

(iv) Recoveries by Tax Recovery Officer (TRO) (All India Position)

69. The administrative machinery of tax recovery was strengthened by allocating one Tax Recovery Officer (TRO) exclusively to each range consequent to the restructuring of the department. Collection unit in a range, headed by one TRO, has been made responsible for collection, recovery and refund of taxes. Accordingly, sanctioned strength of TROs was increased from 204 as on 31 March 2001 to 472 after restructuring representing an increase of 131 percent. The sanctioned strength was further increased to 509 as on 31 March 2003 but decreased to 462 as on 31 March, 2004.

70. The Board informed that cash collection out of arrear demand had increased from 6.85 percent as on 1 April 2001 to 7.4 percent as on 1 April 2003. There was stated to have been even greater improvement in the ratio of cash collection out of current demand, which was stated to have increased from 12.61 percent in 2001-02 to 24.55 percent in 2003-04.

71. The position of staff deployed in Tax Recovery is given as below :—

Cadre	2001-02		2002-03		2003-04	
	Sanctioned Strength	Number actually deployed (as percentage of sanctioned strength)	Sanctioned Strength	Number actually deployed (as percentage of sanctioned strength)	Sanctioned Strength	Number actually deployed (as percentage of sanctioned strength)
TROs	472	472	509	457	462	388
Inspectors/Supervisors	1013	781	1080	793	753	615
UDCs	482	346	520	399	426	239
LDCs	238	119	251	164	199	92
Stenographers	207	125	237	131	251	124
Notice Servers	275	158	262	153	203	105
Peons	180	93	-	-	204	79
Total	2867	2094 (73.04)	2859	2097 (73.35)	2498	1642 (65.73)

72. It has been noticed from the above table that not only were there vacancies in almost all cadres of tax recovery machinery but also the sanctioned strength itself had declined from 2867 in 2001-02 to 2498 in 2003-04.

73. Explaining the reasons for this decrease, the Ministry in their note submitted to the Committee stated :—

“Creation of new assessment Ranges like the new Central and International Taxation Ranges necessitated marginal increase, while subsequent rationalization of workload occasioned marginal reduction”.

74. Details of demands certified to TROs and demands recovered for 1998-99 to 2003-04, pre and post re-structuring as furnished by Audit are given below :—

(Rs. in crore)						
Year	Demand at the beginning of the year	Demand certified during the year	Total demand	Demand recovered during the year (as a percentage of total demand)	Balance at the end of the year	Recovery per TRO
1	2	3	4	5	6	7
1998-99	3,581.80	2,490.08	6,071.88	1,173.66 (19.33)	4,898.22	6.99
1999-00	4,898.22	2,647.77	7,545.99	986.85 (13.08)	6,559.14	6.80

1	2	3	4	5	6	7
2000-01	6,559.14	3,706.51	10,265.65	2,223.74 (21.66)	8,041.91	12.42
2001-02	8,041.91	7,885.96	15,927.87	2,229.48 (14.00)	13,698.39	4.72
2002-03	13698.39	6,752.72	20,451.11	4441.85 (21.72)	16,009.26	9.72
2003-04	16,009.26	5,320.28	21,329.54	4111.73 (19.28)	17,217.81	10.60

75. In the context of Audit findings, the Committee desired to know as to how the Ministry justified increase in sanctioned strength of about 131 per cent of tax recovery officers after the restructuring when the percentage of recovery is almost the same as was prior to restructuring with lesser number of tax recovery officers. The Ministry of Finance (Department of Revenue) have informed :—

“Though the sanctioned strength of TROs was increased after restructuring from 204 to 472, a number of the posts remained unfilled for long periods of time due to vacancies. Besides, prior to restructuring both the AOs and TROs made synergetic efforts at collection. Post-restructuring, collection is largely pursued by the TROs.

Even though the percentage of demand recovered by TROs *vis-à-vis* the total certified demand may not have improved to the extent expected, there is remarkable improvement in the amount of recovery per TRO from about Rs. 7 crore in pre-restructuring period to almost Rs. 11 crore in the post-restructuring period”.

(v) Revenue collections from search and seizure cases

76. The Income Tax Department conducts searches every year and seizes assets from suspected defaulters, launches prosecutions, and obtains convictions in order to dispose of cases.

77. The following table as furnished by Audit indicates the position of prosecutions launched, convictions obtained, offences compounded and acquittals allowed :—

Year	Number of prosecutions launched			Disposal of cases			Cases pending Balance	
	Open- ing balance	Addi- tions	Total	Convictions (Percentage of total disposal of cases)	Compound- ing	Acquittals (Percentage of total disposal of cases)		Total (Percen- tage of total prose- cutions launched)
1	2	3	4	5	6	7	8	9
1999-00	14,122	343	14,465	14 (0.87)	128	1,465 (91.16)	1,607 (11.11)	12,858

1	2	3	4	5	6	7	8	9
2000-01	12,858	235	13,093	20 (2.78)	279	419 (58.36)	718 (5.48)	12,375
2001-02	12,375	38	12,413	5 2.36	8	199 (93.87)	212 (1.71)	12,201
2002-03	12,201	102	12,303	18 (4.16)	11	404 (93.30)	433 (3.52)	11,870
2003-04	11,870	37	11,907	12 (10.43)	55	48 (41.74)	115 (0.96)	11,792

78. It would reveal from the above table that the total number of cases disposed off during the year had declined from 11.11 percent in 1999-2000 to 0.96 percent in 2003-04. Out of the total cases disposed off, only 10.43 percent of cases resulted in convictions in 2003-04. The proportion of acquittals or compounding was around 90 percent or more in all the years under consideration. The position of prosecutions launched, convictions obtained, offences compounded and acquittals allowed has, therefore, not changed for the better after restructuring of the Income Tax Department.

79. As regards final revenue collections from 'search and seizure' cases, the Board had informed to Audit that details of final revenue collection from 'Search and Seizure' cases were not maintained, and hence did not have any mechanism to assess, monitor and enhance the efficiency of this very important instrument of deterrence against tax evaders.

80. The Department of Revenue, while commenting on the audit observations have stated as follows:—

“The cadre restructuring took place in the year 2001. A perusal of table 8 of the Report of Comptroller and Auditor General shows that the percentage of convictions obtained, *vis-à-vis*, the percentage of total disposal of cases has increased from 2.78 per cent in financial year 2000-01 to 10.43 per cent in financial year 2003-04. Regarding the decline in the total number of cases disposed of, it is submitted that the complaints are filed before the Magistrates. The legal process before the judicial authority takes time before the judgement is passed by the court of law.

Further, compounding of a case follows assessee's acceptance of the charge against him and instead of fighting the case, he prefers to pay compounding fee rather than proceed with the prosecution. Hence, compounding should be seen as deemed conviction. The Board has issued revised guidelines for compounding of prosecution cases in the year 2003, so as to encourage compounding and reduce litigation. In F.Y. 2004-2005, the total number of cases compounded is 262, which is a significant improvement upon compounding done in earlier years”.

81. The Committee desired to know as to how the Ministry watched the results of the searches in absence of details regarding final revenue collection from search and seizure cases. The Ministry replied as under :—

“In order to facilitate close monitoring and supervision of search and seizure cases, separate charge headed by DG (Investigation)/CCIT (Central) has been created exclusively for this purpose. The revenue demand and collection is reported by these charges to the CBDT on a monthly basis in their monthly Central Action plan statement. Tax demand above Rs. One crore is monitored by the DIT (recovery), who reports to the CBDT. Apart from this, the revenue collection of search and seizure cases is also monitored by the respective DGIT (Inv.)/CCIT (Central).”

82. Further, giving details of the number of search and seizures conducted during the last three years, the Ministry stated as under :

Financial Year	No. of warrants executed	Aggregate seizures made
2002-03	4902	51586.54
2003-04	2492	23137.42
2004-05	2377	20227.82

“The searches revealed substantial tax evasion in several cases. Eventual computation of concealed income and recovery of tax is monitored in individual cases.

Search and seizure cases are generally assessed in central circles. Disposal of search and seizure assessments in these circles constitute only a portion of the total disposals. At macro level, consolidated statistics of detection of concealment and eventual recovery in search cases as a group is not maintained.”

83. As regards the mechanism developed to assess and monitor the final results of searches and seizures, the Ministry informed :—

“There has been a system to assess and monitor the final results of search and seizure, even before this review was undertaken. The search and seizure cases are monitored and supervised at fairly senior level in the field formations.

Search & seizure assessments, and related assessments, are assessed exclusively in Central Circles functioning under Central Commissionerates. In the two metros, Delhi & Mumbai, CCsIT have been posted to exclusively monitor assessments in search & seizure cases. In other places, the DGsIT (Investigation) concerned do the monitoring”.

(vi) Position of assessments

84. In order to improve the functional efficiency of the department, certain rationalisation measures at a structural level were introduced. This included separation of the assessment, collection and record keeping functions. Three separate units each for assessment, collection and record keeping were introduced. The officer incharge of a circle or ward in the assessment unit in a range was required to do only assessment work. Collection unit in a range, headed by one TRO, was made responsible for collection, recovery and refund of taxes and Record keeping unit, headed by an office superintendent and assisted by tax assistants and daftaries had to manage the records for the entire range.

85. The Mishra Committee (in-house study done by the department) had observed that the number of scrutiny assessments both in absolute terms and as a proportion of the number of registered taxpayers had fallen considerably from approximately 60 percent in the late 1960s, to approximately 30 to 40 percent in the late 1970s and down to a little over 5 percent in the 1990s.

86. Table given below as furnished by Audit gives the percentage of total assessments due, which were selected for scrutiny and also those completed after scrutiny during 1991-92 to 2003-04.

Table : Assessments selected/completed after scrutiny

Year	Assessments selected for scrutiny as a percentage of total assessments due	Assessments completed after scrutiny as a percentage of total assessments due
1991-92	6.65	3.81
1992-93	6.41	3.59
1993-94	5.56	3.76
1994-95	4.53	2.99
1995-96	4.29	2.84
1996-97	4.36	3.02
1997-98	8.00	6.64
1998-99	3.25	1.10
1999-00	2.02	1.15
2000-01	1.15	0.72
2001-02	0.59	0.46
2002-03	2.37	0.46
2003-04	1.42	0.72

87. The figures contained in the above table indicates the assessments selected for scrutiny as a percentage of total assessments due had declined steadily from 6.65 percent in 1991-92 to 0.59 percent in 2001-02 except for 1997-98 when this figure was 8 percent. In 2002-03, this figure rose to 2.37 percent and again fell to 1.42 percent in 2003-04.

88. Audit scrutiny has further revealed that assessments completed after scrutiny as a percentage of total assessments due was however much smaller than above and steadily declined from 3.81 percent in 1991-92 to 0.72 percent in 2003-04. Significantly, this figure has been about 1 or less than 1 percent in the last 5 years (less than ½ percent in 2001-02 and 2002-03).

89. Audit has also pointed out that the figures of scrutiny assessments, due for disposal in 2003-04 were shown as 3.88 lakh whereas at the end of March 2003, 7.22 lakh scrutiny assessments had remained pending for disposal. Normally, assessments due for disposal for 2003-04 should have been higher than 7.22 lakh as it would include pending assessments of earlier year and additions made during the year. Reasons for the discrepancy were not ascertainable.

90. Audit attempted a 'test check' of the position of the assessments completed between 2000-01 to 2003-04 in the selected CCIT charges of Delhi, Maharashtra, Tamil Nadu and West Bengal with a view to assessing the position of assessments completed in summary manner as well as after scrutiny. In summary cases, the number of assessments due had increased from about 90 lakh in 2000-01 to about 1.1 crore in 2003-04. The disposal of summary cases had increased from 53.4 percent of cases due in 2000-01 to 73 percent in 2003-04. In case of scrutiny assessments, the number of assessments due had increased from about one lakh cases in 2000-01 to about 1.77 lakh cases in 2003-04. The completion of scrutiny assessments had decreased from 73.6 percent to 51.2 percent during the same period.

91. The Committee sought to know as to how the Ministry justified the selection of a small percentage of cases for scrutiny assessment when the Mishra Committee Report, on the basis of which the proposal of restructuring was formulated, had observed that number of scrutiny assessments had come down to over five per cent in the 1990's and there was no scope to further reduce it. The Ministry replied in their written note:—

“The system of selection for scrutiny has moved towards objective selection and CASS (Computer Assisted Scrutiny Selection) in order to reduce discretion with the Assessing Officer (AO) and to ensure intelligent and quality selection. Selection of cases for scrutiny is now based on the criteria laid down by the Board. As a result, instead of large number of low-revenue potential cases being earlier picked up for scrutiny, comparatively higher number of large revenue potential cases are now picked up for scrutiny. The sharp increase in the collection out of current demand, during the post-restructuring period (please see the table below) clearly underscores the fact that quality of selection is more important than the number of cases selected. Disposal of assessments, being largely conditioned by the limitation imposed by the Act, the eventual figures of disposal obviously get conditioned by the number picked up for scrutiny.”

92. Regarding remedial steps taken to increase the number of cases of selection and disposal of scrutiny assessments, the Ministry intimated:—

“In the years prior to restructuring, cases for scrutiny were selected on random or quasi-random basis. It was only in the year 1998-99 that certain parameters were laid down for selection of cases.

In the post-restructuring period, the Board has been issuing comprehensive guidelines for selection of cases. However, the guidelines are such that the ultimate number of cases that would be selected is not prescribed.

The Board has also adopted the Computer Assisted Selection System (CASS), which is non-discretionary and removes the element of bias, in the Financial Year 2004-05. The CASS has been incorporated in the Central Action Plan for F.Y 2005-06. With the enlargement in the fields of data and their stabilization on AST system, the CASS would become a more effective mechanism in the coming years.”

93. As regards the criteria adopted by the Ministry to select more potential cases for scrutiny, the Ministry stated as under:—

“The Board had authorised selection of residual cases in the scrutiny guidelines in October 2004. The scrutiny selection guidelines have been included in the Central Action Plan for Financial Year 2005-06 on similar lines. However, the number of cases selected under the residuary category is not separately monitored. It may be stated that overall 248858 cases were selected for scrutiny assessment in Financial Year 2004-05 as compared to 196250 in Financial Year 2003-04. At the CBDT level the overall number selected for scrutiny is monitored.”

(vii) Outsourcing

94. Audit noticed that an expenditure of Rs. 4.25 crore had been incurred in 43 CsIT charges test checked in Andhra Pradesh, Gujarat, Madhya Pradesh, Maharashtra, Tamil Nadu and Uttar Pradesh during 2001-02 to 2003-04 on outsourcing of work relating to processing of income tax returns, allotment of PAN upto June 2003, dispatch of refund orders and Tax Accounting System (TAS). These costs were not projected in the proposal submitted to the Union Cabinet for approval. Audit has thus observed that the increased number of summary assessments completed and refunds issued after restructuring would need to be viewed in the light of the above position.

95. While giving details of the total expenditure incurred on the outsourcing of the various items of the duties of the Income Tax Department, the Ministry stated as under:—

“In order to complete processing of returns within 4 months, the CCsIT have been authorized to outsource data entry of returns, with adequate safeguards, wherever it is not possible to meet the workload, and the time schedule, with the available manpower. It needs to be stressed that processing of returns was not outsourced.

The expenditure incurred for necessary data entry, in the post-restructuring years, is as under.”

Financial Year	Funds Sanctioned (Rs. Crore)
2002-03	2.81
2003-04	2.58
2004-05	2.15

96. When asked about the reasons as to why the costs of outsourcing were not projected in the proposal of restructuring, the Ministry replied :—

“The proposal for restructuring of Income Tax Department was submitted to Cabinet in July 2000. This did not include any norm for processing of returns of income within a fixed time other than the overall limitation provided in section 143/153 of Income Tax Act. Subsequently the Task Force on Direct Taxes chaired by Dr. Vijay Kelkar submitted its report in November, 2003 which recommended that department should complete processing of all returns within four months of filing. This recommendation was accepted by the Govt. Therefore, CBDT decided in November, 2002 that wherever it is not possible to complete processing of returns within 4 months with the departmental manpower the local Chief Commissioners / Commissioners may outsource data entry of salary returns, and other small income non-company returns subject to necessary security safeguards so as to ensure processing of returns within 4 months. Therefore, the decision to outsource part of the work of data entry of returns was taken much after the proposal for restructuring was submitted to Cabinet in July, 2000. As a result the time taken for processing of returns got reduced from over 12 months to 4-5 months. In these circumstances, cost of outsourcing of data entry could not have been projected in the Cabinet note.”

(viii) Productivity per assessing officer

97. Audit attempted to study the productivity of assessing officers in terms of the number of scrutiny assessments completed. The proposal made to the Union Cabinet by the Ministry/Board on ‘restructuring of Income Tax Department’ promised an estimated 200 percent increase in ‘productivity’ at organizational level. Neither did the proposal define ‘productivity’ nor did it state how to measure ‘productivity’. Audit has observed that this had to be viewed in conjunction with the fact that the number of scrutiny assessments selected depended upon the instructions issued centrally by the Board every year and CCsIT/CsIT had only a limited scope to add to the numbers. Mishra Committee Report envisaged that the Addl./Jt. Commissioner would be expected to do 25 scrutiny assessments per year and the Dy/Asstt Commissioner and ITOs would be expected to do 125 and 160 scrutiny assessments per year respectively.

98. Audit scrutiny has revealed that the average number of scrutiny assessments completed by each assessing officer (AO) at all India level during the years 1999-2000 to 2003-04 has declined from 82.31 per assessing officer in 1999-2000 to 44.50 per assessing officer in 2003-04. It remained stagnant around 38 per assessing officer during 2001-02 and 2002-03 and improved slightly in 2003-04 but was still below the pre-restructuring level. The relevant details in this regard are as follows:

Year	No. of Scrutiny assessments completed	No. of Assessing officers	No. of scrutiny assessments completed per AO
1999-00	316223	3842	82.31
2000-01	225730	3842	58.75
2001-02	168010	4383	38.33
2002-03	172410	4436	38.87
2003-04	197390	4436	44.50

99. The Committee desired to know as to how 'productivity' in the department was measured. The Ministry in their written information have submitted in this regard as follows:—

“Productivity is evaluated on the twin parameters of collection per employee and assesses per employee.

Productivity, as laid down in the proposal to the Cabinet, has increased because the number of assesses has increased rapidly. Besides, the increase in productivity may be seen from the substantial decrease in cost of collection and increase in the growth of the tax as a ratio of the GDP, as may be seen from the data here under. Productivity has also to be judged with reference to employee per-capita collection.”

100. The Ministry have furnished the following data to support their claim :

TABLE – 1 : Cost of Collection

Year	Total Collections (Rs. Crore)	Total Cost (Rs. Crore)	%Age
1997-98	45685	612.18	1.34%
1998-99	46600	852.00	1.83%
1999-00	57959	911.42	1.57%
2000-01	68305	934.89	1.36%
2001-02	69198	1022.09	1.48%
2002-03	83088	1015.49	1.22%
2003-04	105088	1066.45	1.01%
2004-05	131918	1178.10	0.89%

TABLE – 2 : Growth Rate of Collection

Year	Total Collections (Rs. Crore)	Growth Rate (%age)
1997-98	45685	17.45
1998-99	46600	2.00
1999-00	57959	24.38
2000-01	68305	17.85
2001-02	69198	1.31
2002-03	83088	20.07
2003-04	105088	26.48
2004-05	131918	25.53

TABLE – 3 : Direct Tax – GDP Ratio

Financial Year	Net Collections of Direct Taxes (Rs. in Crore)	GDP at Factor Cost at current market price (Rs. in Crore)	Direct Tax GDP Ratio
1997-98	48290	1522547	3.17%
1998-99	46600	1740935	2.68%
1999-00	57959	1929641	3.00%
2000-01	68305	2089499	3.27%
2001-02	69198	2271984	3.05%
2002-03	83088	2463324	3.37%
2003-04	105088	2760025	3.81%
2004-05	131918	3108561	4.24%

TABLE – 4 : Productivity

	No. of employees	Collection (Rs. in Crore)	Collection per employee (in Rs.)	No. of Assesses (in Lakh)	No. of Assesses per employee
1997-98	61093	48290	7904342	148.46	243
2000-01	61093	68305	11180495	214.29	351
2001-02	55590	69198	12447922	247.37	445
2004-05	58409	131918	22585218	308.08	528

101. The Committee further desired to know as to whether the targets of scrutiny assessments at each level envisaged in the Mishra Committee Report have since been achieved. The Ministry in their reply have stated :—

“The basis for restructuring was the Cabinet note which was approved on 31.8.2000. The Mishra Committee Report was only a prelude to it.

No targets for assessing officers have been prescribed in the post-restructuring period. Besides, selection of cases for scrutiny has not been done on fixed targets of disposal for the assessing officers. The quality of cases selected for scrutiny and the quality of assessment have been the focus in the post-restructuring years. The average number of scrutiny assessments completed by each AO has shown improvement from 33.33 cases per assessing officer in 2001-02 to 44.50 in 2003-04, and to 48.42 in 2004-05.”

102. Scrutiny assessment is a full fledged and principal item of work of assessing officers and intended to act also as a deterrent against misuse of provisions of the Act

and evasion of tax in subsequent assessments. Audit attempted a further analysis of “productivity” per assessing officer with reference only to scrutiny assessments completed in the selected states during 2000-01 to 2003-04 as detailed below:

Charge	Assessing officers		Scrutiny assessments completed (average per assessing officer)			
	Pre- restructuring	Post restructuring as on 31.3.2004	2000-01	2001-02	2002-03	2003-04
Andhra Pradesh	208	221	17517 (84)	8119 (38)	9886 (46)	13051 (59)
Delhi	267	244	34561 (129)	5083 (21)	17267 (71)	15957 (65)
Gujarat	288	306	18313 (64)	19594 (64)	14707 (48)	6039 (20)
Karnataka	188	208	10708 (57)	6377 (34)	9141 (45)	9433 (45)
Madhya Pradesh	82	93	5337 (65)	4351 (47)	2680 (29)	6041 (65)
Maharashtra	NA	588	9932 (NA)	23385 (45)	28389 (48)	42876 (73)
Tamil Nadu	263	325	12544 (39)	7688 (24)	9423 (29)	15800 (49)
Uttar Pradesh	NA	240	25877 (NA)	6454 (27)	8338 (35)	12201 (51)
West Bengal	399	431	16058 (40)	15355 (36)	10412 (24)	16189 (38)

103. It is seen from above figures furnished by Audit that the number of scrutiny assessments completed in a year per assessing officer has either remained constant or improved slightly in Madhya Pradesh and Tamil Nadu during 2000-01 to 2003-04 while in the case of Andhra Pradesh, Delhi, Gujarat, Karnataka and West Bengal, this number declined. The above data was not available for Maharashtra and Uttar Pradesh charges for the prerestructuring period. In none of the states, however, this number was close to the figure indicated in the proposal for restructuring based on Mishra Committee Report. An average of 45 scrutiny assessments completed per assessing officer in 2003-04 would indicate that each assessing officer would be completing less than 4 assessments per month. Audit has thus observed that a large force of assessing officers did not appear to have been gainfully utilised for completing more scrutiny assessments, after restructuring.

104. Explaining the reasons for decline in the average number of scrutiny assessments completed by an assessing officer after restructuring, the Ministry informed:—

“Due to various factors like jurisdiction, assessee base and tax potential, generation of revenue and no. of assesses per field office, are not uniform. There is bound to be diversity. However, performance of the field offices are regularly monitored through the monthly and quarterly reports.”

105. Explaining the reasons as to why no targets had been fixed for assessing officers in the post restructuring period, the Ministry stated :—

“Limitations provided under the Income-tax Act, 1961 oblige time-bound closure of proceedings. In matters of collection and other selected areas of functioning, targets have always been fixed in the Central Action Plan. Assessments to be barred by limitation have to be completed. In addition, field formations are directed to dispose of assessments in revenue yielding cases so as to augment budget collection. Besides, selection for scrutiny is made strictly in accordance with the guidelines issued. All these regulate and ensure adequate disposal. As such, no separate target is fixed for assessing officers with regard to disposal of assessments.”

(x) Dealing with stop filers

106. An assessee is termed as ‘stop filer’ if he has not filed return in all of the preceding 3 years and as ‘non filer’ if return has not been filed in any of the preceding 3 years. Mishra Committee report estimated an immediate additional revenue gain of Rs.2800 crore as a result of enhanced ability to deal with ‘stop filers’ after restructuring.

107. The Audit Paragraph indicates that the details of total number of assesses and stop filers identified were provided by the Board but the number of stop filers brought back to tax net and additional revenue raised from such stop filers brought back to tax net were not available.

108. The following table as furnished by Audit indicates the position of stop filers from the year 2001-02 to 2003-04.

Position of stop filers, 2001-02 to 2003-04

AG	Total number of assesses	Number of stop filers identified by Department	Number of stop filers brought back to tax net	Additional revenue raised	Number of stop filers as percentage of total assesses	Percentage of stop filers brought back to tax net
1	2	3	4	5	6	7
Andhra Pradesh	5196974	1320186	NA	NA	25.40	--
Delhi	NA	NA	NA	NA	--	--
Gujarat	6551558	961856	NA	NA	14.68	--
Karnataka	4797516	1251139	NA	NA	26.08	--
Madhya Pradesh	3648829	351011	3723	NA	9.62	1.06

1	2	3	4	5	6	7
Maharashtra	4101058	161952	4711	10.93	3.95	2.91
Tamil Nadu	8058717	1412074	NA	NA	17.52	--
Uttar Pradesh	4785586	614670	84505	6.10	12.84	13.75
West Bengal	571743	33653	3023	0.06	5.89	8.98

109. It would reveal from the above table that in the States for which information was available, the number of stop filers as percentage of total number of assesses varied from 3.95 in Maharashtra to 6.08 in Karnataka. The proportion of stop filers brought back to tax net varied from 0.11 percent to 13.75 percent.

110. Audit scrutiny revealed that in Tamil Nadu, Gujarat, Karnataka and Andhra Pradesh charges, though number of stop filers was available with the Department, they did not have any data for number of stop filers on whom notices were served, who were brought back to tax net and against whom additional demand was raised.

111. Audit noticed that there was no clear policy in the department for monitoring and reducing the number of stop filers besides realizing the revenue due from them. Firstly, the basis on which the Mishra Committee report arrived at the figure of Rs.2800 crore as the additional revenue gain from bringing back the stop filers to tax net after restructuring was not ascertainable. Secondly, since no data in this regard was being maintained by the Board, it was not clear as to how the Board was monitoring the progress of the objective of bringing back the stop filers to tax net. Thirdly, in the charges where this data was being maintained, the progress was slower than what was promised in the proposal.

112. The Committee sought to know as to how the Ministry was monitoring the revenue gains resulting from dealing with 'stop filers'. The Ministry informed that :—

“Under three circumstances an existing assessee may stop filing returns of income. Firstly, many assesses cease to have taxable income with the change in legal provisions. For example, with the threshold limit for filing of returns having been raised to Rs. 1 lakh, many persons would not be required by law to file returns. Further, since 1993-94, partners of partnership firms, not having any other source of income, are not required to file returns of income. Similarly, persons having income from dividend alone are no more required to file returns of income. Secondly, an assessee might move from one place to another and in such a scenario, he would be a stop filer in his old jurisdiction. Besides these there would be the third category of stop filers simpliciter. They are the persons having taxable income, who had filed returns earlier, but have stopped filing returns. Some of them may not be having taxable income.

If proceedings are initiated against all stop filers, that would present massive logistical and technical challenges. Issue of manual notices to all of them, their follow-up and obligatory completion of assessments in their cases, would generate workload much more than the current scrutiny workload. Besides, for completion of proper assessments in such cases, required data cannot be

accessed, collated and processed without complete computer support. As an interim measure, cases of stop filers have been pursued on sampling basis.

On eventual complete computerization of all work processes and availability of online access to the collected data from various sources, pursuit of suitable cases of stop filers would be possible.

Wherever the cases of stop filers have been pursued, separate account of revenue gain in those cases has not been kept. On complete computerisation that would be possible”.

113. As regards the remedial steps taken to maintain such data in future, the Ministry stated :—

“Currently all returns of income are being processed on-line. After a system of effective pursuit of the cases of stop filers is put in place, alongwith full systemic support, statistics would automatically be generated from the system itself”.

114. Dealing with the cases of stop filers, the Secretary (Revenue) stated in evidence:—

“There are, for example, certain scam cases where it becomes not possible to collect huge demands that are raised on the basis of figures as estimated plus interest but we are not able to do it. There are *ex-parte* orders issued where the attending officer does not get a chance to examine all the relevant documents to arrive at certain conclusions and the seized assets are inadequate to meet the demands.

Another reason relates to the interest charged under section 220. In case the principal is not recovered, the chance of recovering the interest is ‘NIL’. However, interest under section 220 is levied following numerous audit objections regarding stop filers. There are many reasons why they may ceased to have taxable income particularly with the threshold limit being raised. They may move from one place to another and if proceedings are initiated against all stop filers, that could present massive logistical and technical problems. However, we are pursuing the cases of stop filers on a sampling basis and we have decided to issue letters first. The follow-up action would be taken after that”.

(xi) Position of Appeals

115. One of the benefits promised in the proposal of restructuring was immediate additional revenue gain of Rs.7500 crore by increasing the number of first appellate authorities and TROs. Besides, period for redressal of grievance was to be reduced from 18 months to six months. The Board fixed 60 units (weightage of 2 units for company assessment and 5 units for search & enhancement cases) per month disposal norm for each CIT (A), which was increased to 75 units per month from June 2004.

116. Audit has pointed out that as on 31 March 2004, 0.82 lakh appeals were pending disposal at the level of CIT(A). As far as maintenance of statistics in respect

of revenue involved in appeals filed, disposed off and balance pending was concerned, the Board/Department did not have uniform system. While information on revenue involved in appeals was furnished to Audit in Andhra Pradesh, Karnataka and partly in Maharashtra charges, the same was not available in Delhi, Gujarat, Madhya Pradesh, Tamil Nadu, Uttar Pradesh and West Bengal charges. The Board informed that the department was not maintaining statistics in respect of revenue involved in appeals filed, disposed off and balance pending. The Board later furnished some data according to which out of the total amount of Rs.57,128 crore disputed/locked up in appeal with various appellate authorities as in January 2004, an amount of Rs.26,260 crore (46 percent) was pending with CsIT(A).

117. Since the department was not maintaining statistics on revenue figures involved in appeals filed, disposed off and balance at the end of the year, the basis on which additional revenue gains of Rs.7,500 crore by increasing the number of CsIT (A) and TROs had been promised in the proposal to the Union Cabinet was not ascertainable during audit.

118. According to Audit scrutiny, number of appeals disposed off was 1.08 lakh in 1999-2000, which declined to 0.98 lakh in 2000-01 and further to 0.80 lakh in 2001-02 before increasing to 1.18 lakh in 2002-03 and further declining to 0.95 lakh in 2003-04. There has been a steady decline in the number of appeals pending at the end of the year from 1.90 lakh in 1999-2000 to 0.82 lakh in 2003-04 which was due to the fact that addition of appeal cases at the level of CIT (A) came down from 0.82 lakh in 1999-2000 to 0.73 lakh in 2003-04. This, in turn, was attributable to the fact that the number of scrutiny assessments completed during the year came down substantially from 3.16 lakh in 1999-2000 to 1.97 lakh in 2003-04.

119. Audit scrutiny of records revealed that addition to the number of appeals at CIT (A) level during the year as a percentage of scrutiny assessments completed during the year increased from 26 in 1999-2000 to 37.02 in 2003-04 implying, that the proportion of scrutiny assessments with which the assesses were dissatisfied was increasing. The addition to appeals/writs/references at the ITAT level during the year as a proportion of number of cases disposed off by CIT (A) during that year increased steadily from 6.06 percent in 1999-2000 to 35.14 percent in 2003-04 implying that there was an increase in proportion of dissatisfied assesses whose appeals were disposed off by CIT (A).

120. Audit scrutiny further revealed that the average number of appeals disposed off by each CIT (A) in a month during 1999-2000 was 43.12, which came down to 27.53 during 2003-04. At this rate, the number of months required to clear the appeals pending as at the end of 1999-2000 would be 21.14 and 10.36 for those pending at the end of 2003-04. From the above analysis, Audit concluded that the period of redressal of grievance at first appellate level, although reduced, could not come down to the promised level.

121. Further, the Board had not maintained records to segregate disposals made within 6 months, which was the period mentioned in the scheme of restructuring for disposal of appeal cases. Thus, the Board did not seem to have evolved the necessary control mechanism to ensure disposal of appeal cases within 6 months.

122. Explaining their position, the Ministry in a written note have stated :—

“The reasons for less disposal of appeals are that in appeals in search and seizure, and company cases, the CIT (Appeals) are instructed to take care in bestowing adequate time and attention on disposal of the appeals. On the other hand, substantially higher disposal is given by the CIT (A) dealing with salary and small business cases. Due to several reasons, for some period some of the posts of CIT (A) have been vacant”.

123. The Committee further desired to know as to how the Ministry was monitoring the estimated revenue gains by way of disposal of appeal cases in the absence of statistics on revenue effect of appeals filed, disposed off and appeals pending. The Ministry in their note submitted to the Committee replied as under:—

“On appeal, enhancement of tax effect is ordered in very few cases. For example, during 2004-05, enhancements were made in 1215 (1.3%) cases out of the total disposal of 93,254 cases. On an average, in 30% of cases, assessment orders are confirmed while in almost identical percent of cases, they are fully allowed. In the remaining cases the demand raised on assessment are varied downwards.

Thus, as a result of first appeal, the demand raised on assessment gets concretized. There is no revenue gain as such. Of course, the process of recovery gets fully activated on disposal of appeals.

While in individual cases, variation in demand due to appeal order is maintained and is verifiable, the prescribed statistical reports do not provide for furnishing of such details”.

124. While intimating the Committee of the mechanism evolved to ensure disposal of cases within six months, the Ministry informed :—

“During the past few years, the total number of appeals disposed off by the CsIT (Appeals) has been substantially more than the number of appeals instituted during the relevant years. As a result, from 2,14,996 appeals pending as at 1.4.1999, the pendency have been brought down to 62,795 as at 31.3.2005. Even then, some appeals have been pending for more than one year. For example, from out of the 62,795 appeals pending as at 31.3.2005, 17,915 appeals are pending for more than one year. Thus the average pendency is definitely less than one year. CsIT (Appeals) have been instructed to try and dispose off appeals within 6 months.

However, so far as high demand appeals are concerned, the CsIT (Appeals) have been instructed not to keep such appeals pending for more than 6 months and their performance in this area is monitored through monthly reports sent by them”.

(xi) Interest on refunds

125. Where refund of any amount becomes due to the assessee under the Act, he is entitled to receive, in addition to the said amount, simple interest thereon calculated

in the prescribed manner. One of the factors on which increase/decrease in the amount of interest paid depends, is the speed with which the refund is paid.

126. As per the proposal on restructuring, the interest burden was expected to be reduced by Rs. 350 crore per annum with reduction in average time taken in issue of refunds. Mishra Committee arrived at an estimate of an average delay of 8 months in payment of refunds during 1996-97 and predicted that after re-structuring, the average delay in issue of refunds would be reduced to four months. The table given below as furnished by Audit shows time series data on refunds during 1990-91 to 2002-03.

(Rs. in crore)				
Year	Refunds	Interest paid on refunds	Interest paid on refunds as a percentage of refunds	Average delay in payment of refunds in months
1990-91	2773	94.58	3.41	3.51
1991-92	3408	148.93	4.37	4.37
1992-93	3655	142.01	3.89	3.89
1993-94	5387	383.47	7.12	7.12
1994-95	4686	432.13	9.22	9.22
1995-96	7999	989.36	12.37	12.37
1996-97	9562	729.97	7.63	7.63
1997-98	8568	902.93	10.54	10.54
1998-99	10255	1854.14	18.08	18.08
1999-00	11488	1189.65	10.36	10.36
2000-01	12751	2622.37	20.57	20.57
2001-02	17220	1922.88	11.17	14.89
2002-03	22031	6268.07	28.45	42.74
2003-04	25736	4701.16	18.26	27.38

127. It is revealed from the above table that from Rs.11,488 crore in 1999-2000, refunds paid had more than doubled to Rs.25,736 crore in 2003-04. Interest paid on refunds as a percentage of refunds has also increased from 10.36 to 18.26 during the same period. Applying the same method as adopted in the Mishra Committee Report, the average delay in payment of refunds has been worked out and shown in column 5 of the table above. From an average delay of about 8 months in payment of refund in 1996-97, it increased to 10.36 months in 1999-2000 and further to 27.36 months in 2003-04. Audit has thus observed that neither had the amount of interest paid nor the average delay in payment of refund decreased as promised in the proposal for restructuring.

128. Giving details of the mechanism developed to check the amount of interest paid on refunds and to reduce the average time taken in payment of refunds, the Ministry informed :—

“The Board has instructed that all returns of income are to be processed within 4 months of being filed and that resultant refund is to be issued within a month of processing. Computerized refund cheques are to be issued in the 60 stations on Network. The progress is monitored through fortnightly reports on Computerisation”.

129. When the Committee specifically sought to know the reasons for the increase in the average time for issue of refunds post-restructuring , the Ministry explained as under :—

“The average delay of 27.38 months in payment of refunds for Financial Year 2003-04 is not the actual time but has been derived on an estimate basis.

The amount of refund in a particular year is dependent upon the TDS provisions applicable for that year, the number of returns processed in that year and the number of appeals/ Court cases decided in that year.

Depending on the appellate forum concerned, appellate decisions are given after months or years of passing of assessment orders. At times, appeals for a few assessment years are bunched and disposed off together. Refunds given in pursuance of appellate decisions would therefore appear to be much delayed refunds, which they are not.

Further, it appears that the average delay computed is not based on actual figures but has been derived from the amount of refund, amount of interest and the interest rate applicable in that year. But the rate of interest, payable on refund, has steadily come down from one-time high of 15% to the present rate of 6% per annum. Therefore, calculation of period of delay on the basis of interest rate for the latest year would artificially increase the period of delay. Besides, Audit has considered 10% of high value refunds only, which mostly are appellate refunds, which involve careful verification and approval prior to issue of refunds.

Besides, refunds of two years were issued in 2002-03 and this resulted in a higher payment of interest in that year. Backward calculation of period of delay, on the basis of quantum of refund of that year, yielded greater period of delay.

It may also be noted that by the very scheme of the Income-Tax Act, payment of interest on refund for 6 or 7 months is a given obligation because interest is calculated from the 1st of April of the assessment year concerned and the prescribed dates for filing of returns of income are 31st July and 31st October”.

130. The Audit paragraph further indicated that the details of interest paid on refunds and the details of number of cases where refunds was paid on indemnity bond

could not be provided since no such statistical data was maintained. In this regard, the position of refunds in Delhi, Mumbai and Uttar Pradesh for 2001-02 to 2003-04 is given below:

Position of refunds in selected charges

(Rs. in crore)

Charge	No. of cases where refund orders issued			Amount of refund paid			Interest paid on refunds (Percentage of refunds)			No. of cases where refund was paid on indemnity bonds		
	01-02	02-03	03-04	01-02	02-03	03-04	01-02	02-03	03-04	01-02	02-03	03-04
Mumbai Region	174047	562282	678705	1090.43	4945.78	7695	69.30 (6.35)	549.20 (11.10)	1123.86 (14.60)	81	186	269
Delhi	46328	100570	93855	23.44	337.81	558.30	3.09 (13.18)	52.35 (15.50)	65.28 (11.69)	271	635	800
U.P.	NA	239423	206297	NA	210.98	175.68	NA	18.97 (8.99)	12.54 (7.17)	NA	38	57

131. Specifying the reasons as to why such data has not been maintained, the Ministry stated :—

“A very small number of refunds are issued after obtaining indemnity bonds. Even in such cases, complete verification with regard to the TDS certificates and cross verification from the RBI/concerned bank and the ZAO/CTU is made. The details of all such information are kept on case record”.

132. As regards the action taken to maintain such data in future, the Ministry informed that it would be available on AST once all stations are brought under network and all processes subsequent to processing of returns of income are carried on in the system.

133. Elaborating on this aspect, the Secretary (Revenue) stated during evidence:—

“So far as interest on refund is concerned, the refunds of two years were issued in the financial year 2002-03. This resulted in a higher total payment of interest and perhaps that is the reason why this average period of 42.74 months has been calculated by Audit since they have calculated the period on the basis of quantum of interest. But generally, the instruction is that returns are to be processed within four months and the refunds are to be made within one month thereafter in the majority of the cases, and as I mentioned earlier, wherever the bank account number is given, we directly transfer electronically to the bank account of the concerned taxpayer”.

(xiii) Transfer of Records

134. After restructuring, records were transferred ‘en masse’ from the erstwhile special ranges, company circles, wards and business circles to the newly created ranges, circles and wards on the basis of pin codes and alphabetical order. The Board informed that after restructuring, there was complete overhaul of the jurisdiction of various charges resulting in transfer of records from the old and abolished units to the newly created ranges and assessing officers. Considering the urgency of the work, entire

efforts were stated to have been directed towards ensuring the dismantling of old charges in 2001. It was, therefore, essential that the assessment and related records of all assesses and assessments were carefully, fully and properly transferred from the old to the new jurisdictions.

135. Audit made efforts to independently ascertain the position of transfer of records in selected offices. Information was available only partly in Delhi, UP and Madhya Pradesh charges and is shown in table below:

Transfer of Records in Selected Offices

	Delhi (only 3 CITs out of 20)	Uttar Pradesh (only Muradabad)	Madhya Pradesh (only Indore-II)
Number of files due from old units	74574	821	60610
Number of files received in new units	68496	799	3604
Number of files not traceable	NA	16	376
Other reasons for non-transfer	NA	NA	NA

136. It could be seen from the above table that in Gujarat, Karnataka and West Bengal charges, no details regarding transfer of records were available with the department. In Chennai (Tamil Nadu), details were available only in respect of files received. No other details regarding files due from old units and files not traceable were available. No information was forthcoming whether all the arrear demands were correctly and promptly transferred and accounted for in the new revised jurisdictions.

137. The Committee desired to know as to how the Board/Ministry ensured that the assessment and related records of all assesses were carefully, fully and properly transferred from the old to the new jurisdiction. The Ministry in a written Note informed as under:—

“The CCsIT in the field formations followed-up the new jurisdiction order and ensured that the jurisdiction order, effective from 1.8.2001, was implemented. All movement of records, demand, etc., was supervised by them as per the prescribed procedure. The Board monitored the implementation of restructuring through the normal statistical reports”.

138. On being enquired as to why documentary evidence regarding transfer of records were not being kept, the Ministry replied that the transfer memos accompanying the transfer of records, prepared by the assessing officers of pre-restructuring jurisdiction, contained the record of transfer of cases, reflected in quantitative terms in the monthly statistical statements.

(xiv) Chain System of Internal Audit

139. As part of restructuring, the existing system of internal audit was replaced by a new chain system of internal audit in the field offices of the Income Tax Department

ostensibly with a view to strengthening the internal check of assessments and refunds involving personnel from all assessment circles. The new system of internal audit was introduced from 6 December 2001, after the approval of the scheme of restructuring by the Cabinet.

140. In the new internal audit system, all auditable cases, where assessments were completed during a month were to be internally audited by the end of the following month. Audit of one range was to be conducted by another range. Audit functions were to be a continuous process and involvement of assessing officers for performing simultaneous audit functions was expected to not only ensure spread of workload but also speed up the process.

141. Prior to restructuring, 150 audit parties (both Internal Audit Parties and Special Audit Parties), consisting around 500 designated officials, were entrusted with the exclusive responsibility for internal audit and each party was required to audit around 110 cases every month. After restructuring, 4626 officials, drawn from all ranges and assessing offices, were to be involved for the purpose.

142. Audit has done an analysis of the all India performance of internal audit from 1999-2000 to 2003-04, including both pre-restructuring and post-restructuring, which is given below:—

Financial Year	Total auditable cases	Target for disposal	Total cases Audited	Shortfall with reference to total auditable cases	
				No.	Percentage
1999-00	3,70,617	1,98,000	1,94,859	1,75,758	47.42
2000-01	4,16,791	1,98,000	1,90,774	2,26,017	54.22
2001-02	4,84,263	4,84,263	41,837	4,42,426	91.37
2002-03	15,57,231	15,57,231	3,60,748	11,96,483	76.83
2003-04	18,40,561	18,40,561	6,90,841	11,49,720	62.46

143. The above analysis done by Audit showed that although, the number of cases audited internally had increased in absolute terms during 2002-03 and 2003-04, the percentage of shortfall with reference to total auditable cases had increased under the new system of internal audit after restructuring as compared to the pre restructuring period implying that the internal controls of the department had weakend.

144. Position of internal audit in respect of Andhra Pradesh, Delhi, Gujarat, Madhya Pradesh, Uttar Pradesh and West Bengal charges as furnished by Audit is given in table below.

Internal Audit in Selected Charges

Year	Andhra Pradesh		Delhi		Gujarat		M.P.		U.P.		West Bengal	
	Auditables cases (Percentage target achieved)	Audited cases (Percentage target achieved)	Auditables cases (Percentage target achieved)	Audited cases (Percentage target achieved)	Auditables cases (Percentage target achieved)	Audited cases (Percentage target achieved)	Auditables cases (Percentage target achieved)	Audited cases (Percentage target achieved)	Auditables cases (Percentage target achieved)	Audited cases (Percentage target achieved)	Auditables cases (Percentage target achieved)	Audited cases (Percentage target achieved)
2001-02	41332	4277 (10.31)	19679	4500 (22.87)	55130	11294 (20.49)	13599	Nil	4082	1279 (31.33)	2764	2214 (80.10)
2002-03	54460	5644 (10.36)	125799	17987 (14.30)	146733	44423 (30.27)	39570	6969 (17.61)	30324	4607 (15.19)	5760	3643 (63.24)
2003-04	136098	84100 (61.80)	127316	55371 (43.49)	139827	47112 (33.69)	46475	7220 (15.53)	16506	3534 (21.41)	6992	5320 (76.09)
Total	231890	94021 (40.54)	272794	77858 (28.54)	341690	102829 (30.09)	99644	14189 (14.24)	50912	9420 (18.50)	15516	11177 (72.03)

145. Audit scrutiny has thus revealed that in terms of absolute numbers, the cases audited internally increased during 2003-04 as compared to 2001-02 in all the selected charges (Andhra Pradesh, Delhi, Madhya Pradesh, Uttar Pradesh and West Bengal) for which information was available. However, number of cases internally audited as a percentage of auditable cases during the same period improved in the case of Andhra Pradesh and Delhi whereas it decreased in the case of Madhya Pradesh, Uttar Pradesh and West Bengal. All the selected charges except Gujarat and West Bengal could achieve only around 50 per cent of auditable cases.

146. Audit scrutiny has further revealed that in the case of Madhya Pradesh and Uttar Pradesh, shortfall in achievement of target was consistently higher than the all India average in the post-restructuring period. The position of Uttar Pradesh was similar to the all India trend both in terms of absolute numbers as well as percentage of target achieved. In the case of Andhra Pradesh, Delhi, Madhya Pradesh and West Bengal, position was similar to all India position in terms of absolute number but dissimilar in terms of percentage of targets achieved.

147. Commenting on the weakening of the controls under the new system of internal audit, the Ministry have explained that :—

“Low functionality of the new system of internal audit has been noticed. It was discussed in the CCsIT Conference of 2004, but a conscious decision was taken to give it a try for one more year. It is realized that this system requires certain modification in order to ensure internal audit of the target group of assessments. A proposal in this regard has already been formulated and will be put in place after consideration by the Board”.

148. The Ministry have further added in this regard that:—

“The structure of the chain system of internal audit has hindered its functionality. Certain modification in the structure is contemplated, which would improve its functioning. Earlier, dedicated but few officials were entrusted with internal audit. Since the chain internal audit system brings into operation involvement of the entire assessment work force, its optimum functionality will strengthen internal check of assessments”.

(xv) Present Status of the Scheme

149. With regard to present status of the scheme in terms of its implementation, monitoring and achievements made since its implementation, the Ministry informed in a written note as under :—

“The restructuring of the organizational set-up was implemented *w.e.f.* 1.8.2001. Since restructuring was put in place *w.e.f.* 1.8.2001, the Implementation Cell to guide the restructuring process was wound up in July, 2001. Thereafter, the respective field formations took over all functions including subsequent stages of implementation and monitoring.

The highlights of the achievements, as in Financial Year 2004-05, made since its implementation are the following :—

Addition in the number of assesses [in lakh]	93.79 [from 214.29 in 2000-01 to 308.08 in 2004-05]; or 43.77%
Increase in budget collection [Rs. in crore]	63613 [from 68305 in 2000-01 to 131918 in 2004-05]; or 93.13%
Increase in the ratio of Direct taxes collection to GDP	3.17% in 1997-1998 to 4.24% in 2004-05
Reduction in cost of collection	1.34% in 1997-1998 to 0.89% in 2004-05
Number of Assesses per employee	243 in 1997-98 to 528 in 2004-05
Collection per employee	Rs 0.79 cr. in 1997-98 to Rs. 2.26 cr. in 2004-05

As regards restructuring of the cadres, direct recruitment to some of the posts in Group A, C & D cadres is pending. In accordance with the DOP&T instructions dated 16-5-2001 according to which direct recruitment is to be limited to 1/3rd of the vacancies of each year for the 5 year period from 2001-02 to 2005-06. The Screening Committee has approved direct recruitment to only 597 out of 2211 vacancies for the year 2001-02, and the vacancies for the year 2002-03 and 2003-04 are yet to be approved by it. As a result , in the course of 5 years an estimated 5530 more direct recruitment vacancies would be abolished, thus raising the total posts abolished to 8282 posts in 6 years including 2752 posts abolished as a result of restructuring. Besides, the Recruitment Rules (RRs) for the Group-C posts of Inspector, Office Superintendent and Stenographer Grade- I are still held up with UPSC and Ministry of Law, while the RRs for 13 categories of Group-C and D posts were notified on 02-09-2003 and Instructions have been issued to Cadre Controlling Authorities on 07-03-2005 for necessary guidance with regard to the manner of filling up vacancies through promotions for the year 2002-03 onwards.

As regards the induction of technology, the computerization programme is an on-going process, and is being implemented in phases. Phase – III of computerization is under implementation, and the progress in different areas of applications is indicated here under:

Sl. No.	Action Points	Objective to be achieved	Remarks
1	2	3	4
1.	IT application softwares		AIS, IRLA and AST have been operationalised in all the Computer Centres across the country.
2.	Providing PCs to all users	Supply, installation of high end PCs to all users required to work on network	More than 8,800 PCs have been provided to Departmental Users.

1	2	3	4	5
3.	Assessment processes	Faster processing of returns of income/ refunds on computers Issue of refunds through electronic clearance scheme Computer assisted selection of cases for scrutiny	Computerized processing of returns of income within four months Direct credit of refunds to the bank account of taxpayers opting for this scheme Computerized selection of cases for scrutiny on non-discretionary, intelligent criteria	Faster processing of returns and refunds resulted in better taxpayer service and lower interest outgo on refunds. Scheme available to salaried taxpayers for refund upto Rs. 25,000. Facility for criteria based computerized selection provided in 60 cities on network.
4.	Dissemination of tax information through web		Enabling taxpayers to obtain up to date information relating to taxation laws, forms, challans etc. through internet	Internet websites and e-mail address have been setup at National and Regional level. Department's website www.incometaxindia.gov.in setup and updated regularly. Average 4 lakh Visitors per day.
5.	Dissemination of taxpayer specific information through web	Know your PAN Blank challans with preprinted PAN View of tax paid in banks View of tax deducted at source	Facility to ascertain PAN on internet Facility to download preprinted Challans with name address and PAN / TAN Facility to verify tax payment on internet Facility to access ledger account of prepaid taxes on internet	Facility provided on the website http://incometaxindiaefiling.gov.in Facility provided on the website http://incometaxindiaefiling.gov.in Facility provided on NSDL website http://tin-nsdl.co.in Dependent on demat of TDS certificates
6.	PAN and TAN related services	(i) Online filing of PAN application (ii) Web Tracking of status of PAN applications	To ensure issue of PAN cards within 15 days Providing facility for online filing of PAN applications on internet Providing online access to taxpayers to ascertain status of PAN applications	Allotment during F.Y. 2004-05 PAN = 63,73,028, TAN = 4,40,199 PAN applications can be filed online at http://tin-nsdl.co.in or http://utiisl.co.in Status of PAN applications can be tracked respectively at http://tin-nsdl.co.in or http://utiisl.co.in

1	2	3	4	5
		(iii) PAN grievance handling with Call centre support	E-filing of PAN grievance, their monitoring, tracking and redressal	Call centre setup on pilot basis.
		(iv) "Tatkal" allotment of PAN	Online line filing of PAN applications, payment by credit card and intimation on e-mail in 5 days	Facility provided on the website at http://tin-nsdl.co.in
7.	Return of income	(i) Simplification of return of income	To simplify and reduce the form of returns of income to one page	Returns from for salaried and other non-corporate taxpayers simplified. Naya Saral (Form 2E) is a simple one page return form for salaried taxpayers.
		(ii) Preparation of returns of income	Return Preparation Software enabling preparation of return of income through a simple question-answer based software	Sampark software released.
		(iii) Electronic filing of returns	Simplifying and reducing the interface between tax payers and the Department at the stage of filing of return of income	Returns for Assessment Year 2005-2006 onwards can be filed from July, 2005 onwards.
8.	e-payment of taxes		Facility for payment of taxes through internet	Tax can be paid through internet banking.
9.	TDS	(i) Redesigning of TDS returns	To simplify and integrate 16 TDS returns forms for lowering cost of compliance	New TDS return Forms No. 24, 26 & 27 have been provided.
		(ii) Electronic filing of TDS returns	Computerization of TDS returns of corporate deductors	Filing of e-TDS returns, introduced through Tax Information Network (TIN), have been made mandatory Corporates. 3,21,623 e-TDS returns filed for F.Y. 2003-2004 Processing of TDS returns have started.
10.	Grievance filing mechanism		Facility for e-filing of grievances	Will enable taxpayers in 60 cities on network to file grievances relating to processing of returns / refunds, appeal effects and rectification petitions on the internet.

1	2	3	4	5
11.	Migration of application software		Migration of application software to 3-tier architecture for consolidation of 36 regional databases into single national database	Migration completed updated version under development. Acceptance Testing in progress.
12.	Linking Income tax offices in 510 cities to single national database		To set up an All India Virtual Private Network linking over 12000 users in 745 buildings in 510 cities to National data centre housing single national database	Tender finalized. Financial sanction awaited. Expected to be completed by 31.01.2006
13.	Setting up National Data Centre with Business Continuity / Disaster Recovery sites		Providing computing, data storage, security facilities and related functionalities for enhanced requirement of 12000 departmental users working on single national database	Technology solution finalized. Tender issued. Expected to be completed by 30.06.2006.

The on-going process of computerization envisages procurement, installation and commissioning of:

- (a) High End Servers for National Computer Centre and 16 Regional Computer Centres proposed to be set up on consolidation of the existing 36 regional Centres;
- (b) Networking of Income-tax offices in remaining 440 cities as also additional points in the 60 cities covered in the earlier two phases;
- (c) Migration of application software;
- (d) Setting up of Tax Information Network (TIN) of following databases:
 - (i) On Line Tax Accounting System (OLTAS)
 - (ii) Dematerialisation of TDS certificates
 - (iii) Annual Information Return (AIR) of high value financial transactions.
- (e) Dematerialisation of TDS certificates;
- (f) Extension of Direct credit of refunds through Electronic Clearing System to all Assesses, at all centres;
- (g) Jurisdiction-free filing of returns of income;
- (h) Extension of Project on Centralised processing of returns in Delhi and Chennai after it successful implementation in Mumbai;

- (i) Inter-RCC transfer of PAN data, specially for salaried assesses;
- (j) Centralised computer matching of information relating to payment of taxes on OLTAS and deduction of taxes coming from TIN;
- (k) Centralised country-wide matching of information of high value financial transactions reported on Annual Information Returns through TIN for widening and deepening of tax base;
- (l) Generation of automated Management Information Statements (MIS) on all India basis for senior functionaries and for tax policy formulation;
- (m) Implementation of Data Warehousing & Business Intelligence solutions for identification of non-filers and cases for scrutiny.

Besides, in respect of other tax payer services, the Interactive Voice Response System (IVRS) has been installed and made operational in the four metros and also at Hyderabad, and Help centers and Helpline have been made operational in the four metros”.

(xvi) Constraints/Problems

150. On being enquired as to whether any constraints/problems were being faced by the Department in implementation of the scheme, the Ministry replied :

“As regards restructuring of the cadres, direct recruitment to some of the posts in Group A, C & D cadres are pending implementation. Besides, as per DoP&T instructions direct recruitment is to be limited to one-third of the vacancies of each year. This has resulted in a situation where as against 2211 vacancies (including 90 Assistant Commissioners) for the year 2001-02, there was further addition of 901 vacancies (including 119 Assistant Commissioners) for 2002-03 and 1654 vacancies (including 120 Assistant Commissioners) for 2003-04 due to stalled direct recruitment only.

As regards the computerization and induction of technology, the main constraints in implementation of the computerization programme relate to shortage of technical manpower in the Income Tax Department and the time required for complying with relevant Government procedures.”

151. Explaining the grey areas found during the critical analysis of the scheme by Audit, the Ministry conceded the following points:

- “(a) The average time taken for disposal of appeals has not yet come down to the promised level of 6 months. With constant monitoring and close supervision, this target can be achieved by 31.3.2007.
- (b) It is felt that the new internal audit system has failed to deliver the desired results and, therefore, the Ministry is considering a proposal to revise the system.
- (c) Besides, it is felt that the large-scale vacancies at various levels of the cadre adversely affected the extent of achievement. The vacancies have arisen mainly

due to less direct recruitment as per DoP&T's Instruction dated 16.5.2001 whereby only one-third of the vacancies can be filled up by direct recruitment. Since the recruitment and promotion to fill up the vacancies are in the domain of DoP&T, UPSC and Cabinet Committee on Appointments, the matter has been taken up with them."

OBSERVATIONS/RECOMMENDATIONS

152. An exponential increase in volume of work in the Income Tax Department over the years had created manifold problems such as increase in pendency of income tax assessments, increase in arrears of taxes, increase in the number of taxpayers per Commissioner of Income Tax (CIT), deterioration in span of control at other levels undermining efficiency and effectiveness, increase in average delay in issue of refunds resulting in huge outgo of interest and virtually inoperative existing manual system due to unprecedented growth in tax payers breeding inefficiency, harassment to tax payers and corruption. With a view to improving tax payer service and providing a user-friendly environment, the Central Board of Direct Taxes (CBDT) proposed to the Union Cabinet in July, 2000 a scheme for restructuring of the Income Tax Department.

153. The basic objectives behind the introduction of the scheme of restructuring were:

- (i) to improve the functional efficiency and effectiveness by rationalizing the structure, standardizing the work norms and induction of technology.**
- (ii) To reduce cost of collection substantially below the cost in 1997-98 of 1.34%**
- (iii) To increase productivity per employee and quick disposal of first appeals by increasing the number of officers while rationalizing the span of control for better supervision, control and management of workload.**
- (iv) Enhancing collection through bringing efficiency in assessment, issue of refunds, post-assessment collection and disposal of appeals and improved services to tax payers.**

The proposal for restructuring of the Income Tax Department provided for a meaningful improvement in tax administration through full-scale induction of information technology. The proposal *inter-alia* aimed to restructure the department while retraining, reorienting and redeploying its personnel. Specially, the productivity per employee was sought to be increased from 265 registered tax payers as on 1 April 1997 to 400 taxpayers as on 1 April 2001, 600 as on 1 April 2004, 900 as on 1 April 2007 and 1350 on 1 April 2010. Thus, the same number of employees was expected to provide quality service to a much larger number of taxpayers. However, the term 'productivity' and how to measure and verify the same was not defined or described in the proposal to the Cabinet even though it was proposed that internal work study norms for the long run would be recast based on cost of collection per registered tax payer and number of registered tax payers per employee. The restructuring proposal also stipulated

that the direct tax laws, rules and guidelines were to be amended or relaxed to give full effect to the proposals.

154. The Cabinet approved the proposal of the Board on 31 August 2001 subject to the following conditions:—

- (i) An 'MoU' should be entered into between the Government and the Board in regard to increased revenue generation;
- (ii) In order to reduce public harassment and ensure accountability, specific steps needed to be taken to strengthen the vigilance and accounting machinery in the Board; and
- (iii) The re-deployed manpower needed to be fully trained in computer technology within a period of five years so as to improve the tax administration.

155. The Committee's examination of the subject is based on the Audit review of the functioning of nine field offices of the Income Tax Department. The Audit relied on the outcomes achieved during implementation of the scheme from 1999-2000 to 2003-2004 i.e. two years prior to and two years after the restructuring including the year of restructuring with reference to nine states i.e. Andhra Pradesh, Delhi, Gujarat, Karnataka, Madhya Pradesh, Maharashtra, Tamil Nadu, Uttar Pradesh and West Bengal where the scheme was under implementation. The purpose of the review was stated to ascertain the extent of achievement of promised immediate revenue gains, the status of fulfillment of conditions laid down by the Cabinet while according approval and the extent of improvement in efficiency after restructuring in areas such as assessments, issue of refunds, disposal of appeals, increased revenue generation, quality of assessments, effectiveness of anti-tax evasion measures, widening of tax base, number of tax payers serviced/handled, tax payers grievances and so on.

Examination of the subject by the Committee in detail has revealed that the avowed objectives of the restructuring scheme have not been fully achieved. There have been significant deficiencies in the implementation of the scheme. The Committee have dealt with these deficiencies and various aspects of the restructuring of the Income Tax Department in the following paragraphs.

156. The Committee are surprised to find that despite five years of approval of scheme of restructuring, MoU, as stipulated in the cabinet approval of the restructuring scheme, has not been entered between the Government and the CBDT. According to the Ministry, MoU not being entered into has not actually affected the performance of the Department. The Secretary (Revenue) declared in this regard that "It is not under active processing at present". It may not be out of place to mention that insertion of this clause in the proposal approved by the Cabinet would not have been made without some rationale and significance. The contention of the Department now that the MoU not being entered into has not affected their performance is thus not tenable. The fact that such a MoU was not signed at the first instance is nothing but regrettable. It is incomprehensible as to how in the absence of such a MoU, the Government monitored and committed

the Income Tax Department with respect to the failures and achievements of restructuring, the fulfilment of targets and the overall accomplishment of goals particularly the revenue outcomes. Considering the fact that the restructuring of Income Tax Department is a huge task involving infusion of funds, technology and legislative/administrative changes, the Committee believe it is extremely important that the CBDT, which is the implementing agency of the restructuring scheme, is able to secure the requisite approvals and assistance from Government. The Committee, therefore, are of the opinion that the CBDT may consider the feasibility of entering into a MoU, even at this stage, in order to accomplish the unfinished task of restructuring.

157. The Committee have been given to understand that the collection of Direct Tax revenue had increased from Rs. 69,198 crore in 2001-02 to Rs. 1,05,088 crore in 2003-04 and Rs 1,31,918 crore in 2004-05, which witnessed an increase of Rs. 63,613 crore over a period of three years after restructuring of the Department. However, analysis of collections during this period revealed that pre assessment collections as a percentage of total collection rose from 79.46 per cent to 85.33 per cent, whereas post-assessment collections declined from 20.54 to 14.67 per cent during the same period. This has happened despite increase in the number of assessing officers from 6172 to 8111 after restructuring. According to the Ministry, the pre-assessment collections are directly related to various efforts made by the Department and cumulative impact of the work done in the area of investigation, assessment, recovery, prosecution, tax payers service etc. The Committee, however, find that the Department did not maintain any data or conduct any study to correlate tax collections to the specific competencies/efficiency achieved in assessment and collection functions consequent to the implementation of the scheme of restructuring. In the absence of such a supportive data, the Committee are unable to be convinced that the growth in pre-assessment collections was an outcome of the restructuring process. Further, the Committee believe that the efforts required in the pre-assessment collections are not of the same degree as those in post-assessment collections. The Committee are, thus, inclined to conclude that the main contributory reasons for the growth in income tax collection during the post-restructuring period may well be factors such as increase in GDP, better economic conditions, reduced tax rates and inflation rather than the measures outlined in the restructuring scheme as such. The Committee, therefore, desire that the increase in tax collections registered during initial three years of restructuring, that is, 2001-02, to 2003-04 and the cost of collection of tax during this period may be critically analysed in this perspective after suitably factoring in the substantial amount of pre-assessment collections so as to arrive at a more transparent, precise and objective benchmark to assess the revenue outcomes of restructuring. The Committee would also like to be apprised about the latest revenue trends distinguishing between pre-assessment and post-assessment tax collections.

158. Another disquieting trend observed by the Committee is the declining number of scrutiny assessments completed in a year after restructuring. As per the Mishra Committee Report (1998) (in-house study undertaken by Department)

a total of 6 lakh scrutiny assessments should have been possible to be completed in a year with the increased numbers of assessing officers that would be available after restructuring. However, the Committee observe that the number of scrutiny assessments completed each year after restructuring (2001-02 to 2003-04) was below 2 lakh. Further, The percentage of scrutiny assessments completed in a year as a percentage of total assessments due declined to 0.72 per cent after restructuring in 2003-04 from 3.81 per cent in 1991-92, even though the number of assessing officers and supervising officers had increased from 6172 during pre-restructuring period to 8111 after restructuring. The Committee thus find that there was a considerable difference in the target fixed by the Mishra Committee for scrutiny assessment and the total number of cases actually completed through scrutiny assessments during each year after restructuring. The Committee would like to apprise as to how the Board justified selection of a smaller number of cases for scrutiny assessments when the Mishra Committee Report, on the basis of which the proposal of restructuring was formulated, had fixed a target of 6 lakh scrutiny assessments during the year. There is a need to re-evaluate their targets for scrutiny assessments so that a much larger number of cases are covered under scrutiny in the post-restructuring phase.

As regards the decline in the number of cases selected for scrutiny, the Ministry have stated that instead of large number of low-revenue potential cases being earlier picked for scrutiny, comparatively higher number of large potential cases are now selected for scrutiny with the emphasis shifting to “quality” instead of “quantity” assessments. However, while according approval of the “scheme of restructuring”, Cabinet had laid emphasis both on the number as well as quality of scrutiny assessments. Thus, the Ministry’s plea in this regard is not acceptable. Furthermore, it cannot be argued that there has been an improvement even in the quality of scrutiny assessments as the additions made to the number of appeals at CIT(Appeals) level as a percentage of number of scrutiny assessments completed during the year has increased after restructuring, thereby clearly indicating the low level of sustenance of “scrutiny assessments” post-restructuring. Further, the improvement or otherwise in the quality of scrutiny can be gauged not only by the number of appeals filed against the assessment orders but by the number of appeals decided in favour of the Department. The Committee would, therefore, like to be apprised of the year-wise details, post restructuring, of scrutiny assessments completed during the year, number of cases where appeals were filed and number of appeals decided in favour of the Department so as to enable the Committee to arrive at an objective conclusion as to the quality and efficacy of “scrutiny assessments” post-restructuring.

159. The restructuring proposal made to the Union Cabinet had in fact promised an estimated 200 per cent increase in ‘productivity’ of assessing officers in terms of the number of scrutiny assessments completed. The Mishra Committee Report had also envisaged that the Additional/Joint Commissioners would be expected to do 25 scrutiny assessments per year and the Deputy/Assistant Commissioner and ITOs would be expected to do 125 and 160 scrutiny assessments per year respectively. The Committee, however, note that the average number of

scrutiny assessments completed by each assessing officer at all India level during the years 1999-2000 to 2003-2004 has declined from 82.31 per assessing officer in 1999-2000 (pre-restructuring) to 44.50 per assessing officer in 2003-04 and marginally increased to 48.42 in 2004-05. It remained stagnant around 38 per assessing officer during 2001-02 and 2002-03 and improved slightly in 2003-04 and 2004-05, but was still far below the pre-restructuring level. The Ministry of Finance (Department of Revenue) have contended that productivity, as laid down in the proposal to the Cabinet, has increased because the number of assesses had increased rapidly. Besides, they have asserted that the increase in productivity may be seen from the substantial decrease in cost of collection and increase in the growth of the tax as a ratio of the GDP and employee per capita collections. The Committee consider that all the above productivity indices are based merely on the overall and general increase in revenue collections of the Department during the post-restructuring period. There could be other generic factors like Government policies, inflation, reduced tax rates etc. which could have resulted in increase in tax collections. The Committee thus believe that productivity per employee can be more accurately measured only in terms of specific functions like the number of scrutiny assessments completed by an assessing officer in a year, which only can serve as an objective index of the efforts made by the income tax officials to enhance departmental performance as per the restructuring plan.

The Committee would also like to point out that a large number of assessing officers did not appear to have been gainfully utilised for completing more scrutiny assessments, subsequent to restructuring. In the selected field offices, average productivity per assessing officer was nowhere close to the figures indicated in the proposal for restructuring based on Mishra Committee Report. The Ministry of Finance (Department of Revenue) have stated that no targets for assessing officers have been prescribed in the post-restructuring period. The Ministry have conceded that in the post-restructuring period, although the Board has been issuing comprehensive guidelines for selection of cases for scrutiny, total number of cases that should be selected has not been prescribed. The criteria for selection of cases for scrutiny laid down by the Board, however, allow the assessing officers with the approval of their CCsIT/CsIT to select more potential cases for scrutiny. The Committee would now like to be apprised about the enhanced number of cases selected for scrutiny by the assessing officers every year exercising those powers and the quantum of enhanced revenue that accrued to the Department there from each year.

The Committee are concerned to note that even the small number of assessment cases selected for scrutiny each year after re-structuring were not completed in time. The number of assessments pending completion had increased from about one lakh cases in 2000-01 to about 1.77 lakh cases in 2003-04 in some of the charges such as Delhi, Maharashtra, Tamil Nadu and West Bengal. The completion of scrutiny assessments had thus decreased from 73.6% to 51.2% during this period. Non-fixation of pre-determined targets of disposal and lack of time-frame seemed to have had a dampening effect on the handling and eventual disposal of "scrutiny assessment" cases. The Committee therefore, recommend

that targets should be fixed for scrutiny assessments for each assessing officer and these should be finalised and completed within a stipulated time-frame. Considering the importance of judicious selection of cases for scrutiny assessment and their prompt disposal for the success of the restructuring scheme, it is imperative that the Department pays serious attention to this key area of their work.

160. Another objective of restructuring was to bring about improvement in the revenue collection through search and seizure cases. The Committee note that the total number of Search and Seizure cases disposed off during the year had declined from 11.11 per cent in 1999-2000 to 0.96 per cent in 2003-04. Out of the total cases disposed off, only 10.43 per cent of cases resulted in convictions in 2003-04. The proportion of acquittals or compounding was around 90 per cent or more in all the years under consideration. The Committee are thus, inclined to conclude that the position in regard to Search and Seizures with reference to prosecutions launched, convictions obtained, offences compounded and acquittals allowed has, therefore, not changed for the better after restructuring of the Income Tax Department. What has surprised the Committee more is the fact that the details of final revenue collections from “search and seizure” cases were not maintained by the Department and they also did not maintain consolidated statistics of detection of concealment of income and their recovery through search and seizure operations, a fact which has conceded by them. The Committee are dismayed that the Department did not have any mechanism at all to assess, monitor and enhance the efficiency of “Search and Seizure” operations, which would be a very important instrument of deterrence against tax evaders. The Committee desire that the Ministry should set up a coherent mechanism atleast now to monitor these operations particularly with a view to ascertaining the sustenance of assessments made in respect of “Search and Seizure” cases.

The Committee feel that there are still a considerable number of people in business/industry/professions who inspite of earning income which may be liable to be taxed, are not paying the requisite income tax. Since the searches and surveys carried out by Income Tax Department would possibly result in addition of assesses and tax revenue to the Government, the Committee feel that the Investigation wing of the Department should be strengthened and made more effective for this purpose. In this connection, the Committee would, however, like to emphasize that “search and seizure” operations should not result in “harassment” of genuine tax-payers and that these operations should be backed by proper intelligence feedback. Enforcement operations such as these, apart from being a measure of deterrence, for tax evaders, should also instil faith on the integrity of the system in the minds of the honest tax payers.

161. One of the benefits which were intended to accrue out of restructuring was the reduction in the uncollected demands. However, this objective also does not seem to have been achieved. This is evident from the fact that percentage of uncollected demand had gone up to 56.79 in the year of restructuring of the Income Tax Department *i.e.* 2001-2002 from 45.55 in 2000-2001. In 2002-2003 and 2003-2004, it came back to pre-restructuring level of about 45 per cent.

The Ministry have stated that there have been improvements in cash collection out of arrear demands and current demands after restructuring but this increase is only in absolute terms. In percentage terms, 70 per cent of total demand remained uncollected in 2004-2005. As regards higher percentage of uncollected demands in the selected field offices, the Secretary (Revenue) explained during evidence that there were certain scam cases where it was not possible to collect huge demands and there were ex-parte orders issued where the attending officer did not get a chance to examine all the relevant documents and the seized assets were inadequate to meet the demands. The Committee find that all the reasons advanced for the increase in uncollected demands are all normal in nature and could well have been foreseen by the Department and a viable strategy planned to maximise the recoveries. The Committee have now been informed in this regard that a Task Force on Recovery has been constituted in the Ministry in 2004 to monitor this aspect. In addition, in the Central Action Plan for 2005-06, separate recovery targets have been assigned to each cadre-controlling CCIT. The Committee hope that the Ministry will closely monitor the achievement of these recovery targets in a time-bound manner. The Committee strongly feel that the Government needs to proceed in this matter on a war footing by taking recourse to whatever administrative, enforcement or legislative measures that are warranted to mop up the arrears of "uncollected demands". The Committee would like to be apprised on this matter in due course.

162. One of the benefits promised in the proposal of restructuring was immediate additional revenue gain of Rs. 7500 crore by increasing the number of first appellate authorities. The Board had fixed 60 units per month disposal norm for each CIT (Appeals), which was increased to 75 units per month from June 2004. The Committee are however, constrained to point out that despite an increase in the number of posts of CIT(Appeals) from 207 to 288 after restructuring, the number of appeals disposed off during the year has marginally declined from 1.08 lakh in 1999-2000 in the pre-restructuring phase to 0.95 lakh in 2003-04 in the post-restructuring period. In fact, the average number of appeals disposed off by each CIT(Appeals) in a month during 1999-2000 was 43.12 which came down to 27.53 during 2003-04, thus clearly showing a down-trend of work-disposal during the post-restructuring period. Adding to this was the increase in the number of appeals at CIT(Appeal) level during the year as a percentage of scrutiny assessments completed. This increased from 26 per cent in 1999-2000 to 37.02 per cent in 2003-04, implying that the proportion of scrutiny assessments with which the assesses were dissatisfied was also correspondingly increasing during this period. The addition to appeals/writs/references at the ITAT level during the year as a proportion of number of cases disposed off by CIT (A) during that year also increased steadily from 6.06 per cent in 1999-2000 to 35.14 per cent in 2003-04, suggesting again that there was an increase as well in proportion of dissatisfied assesses whose appeals were disposed off by CIT(Appeals).

The Committee regret to observe that the Department did not maintain any statistics in respect of revenue involved in appeals filed, disposed off and balance pending. While conceding that there were still some appeals pending for more

than one year, the Revenue Secretary informed the Committee that the effort was to dispose those appeals within six months, and particularly in respect of high demand appeals, the CIT(Appeals) have been instructed not to keep such appeals pending for more than six months and their performance was being closely monitored by the supervisory CCITs. Notwithstanding certain steps taken by the Department, the Committee feel that the disposal of income tax appeals particularly at the first stage is still far from satisfactory, considering the benefits which were proposed to accrue as a result of the restructuring plan. The Committee, therefore, desire that the matter may be looked into so as to identify the specific reasons of pendency of appeals and to suggest ways and means of early disposal including augmenting the strength of the CITs and fixing monthly targets of disposal. The action taken in this regard may be reported to the Committee at the earliest.

163. It was envisaged in the restructuring proposal submitted to the cabinet that there would be an immediate saving of Rs. 3.05 crore on account of manpower restructuring. Accordingly, no additional expenditure was provided under this head. However, post-restructuring, it was noticed that in 43 CIT charges alone, a sum of Rs. 4.25 crore was incurred on outsourcing of work relating to processing of income tax returns, allotment of PAN, dispatch of refund orders and Tax Accounting System (TAS) that was attributable to restructuring and post restructuring work. It is thus evident that the Department had got their estimates wrong while formulating the restructuring proposal. Although Rs. 3.05 crore was intended to be saved in the immediate aftermath of restructuring, the Government, on the contrary incurred Rs. 4.25 crore on outsourcing of elementary income tax operations. The Committee are, therefore, inclined to suggest that the existing budgeting and management systems in the Department require to be spruced up to achieve results commensurate with the objectives.

164. As per the proposal of restructuring, the interest burden on account of refunds was expected to come down by Rs. 350 crore per annum with reduction in average time taken in issue of refunds. The Mishra Committee had predicted that after restructuring, the average delay in issue of refunds would be reduced to four months. However, the Committee note that from an average delay of about 8 months in payment of refunds in 1996-97, it increased to 10.36 months in 1999-2000 and further to 27.36 months in 2003-04. Thus, neither the amount of interest paid nor the average delay in payment of refund has decreased as promised in the proposal for restructuring. The Committee find it surprising that details of interest paid on refunds and the details of number of cases where refund was paid on indemnity bond are also not being maintained by the Department and thus, could not be made available to the Committee. Although, the Ministry of Finance (Department of Revenue) have now stated to have issued instructions for all the returns of income to be processed within four months of being filed and the resultant refunds to be issued within a month of processing. In the opinion of the Committee, mere issuing of instructions in a routine manner will be a futile exercise unless they are effectively followed-up and their compliance strictly monitored. The Committee, therefore, desire that the Ministry should by all means

ensure scrupulous compliance of their instructions and ensure that the field formations issue refunds methodically and within the prescribed time limit. The Committee would like to be apprised about the latest position in regard to the average delay in payment of refunds and the quantum of interest paid on account of delays.

165. The restructuring proposal envisaged that there was to be downsizing of income tax bureaucracy by 4.75 percent. While doing so, stagnation was also expected to be reduced at all levels, to improve employee morale while preparing the Department for induction of technology. With this in view, during the course of restructuring, various posts in the Department were created/abolished and post-restructuring, there was an overall net decrease of 2,755 posts in the staff strength of the Department. The Committee, however, note that in Andhra Pradesh, Delhi, Gujarat, Karnataka, Maharashtra, Madhya Pradesh, Tamil Nadu, Uttar Pradesh and West Bengal Charges, besides the reduction in the sanctioned strength, the posts sanctioned from Inspector and below numbering as many as 3750 also remained unfilled as on 1st April, 2003. The Committee are rather concerned about such a large number of vacant posts in the Department remaining unfilled. Considering the adverse impact such large number of unfilled posts may have on enforcement duties, the Committee recommend that early action should be taken by the Ministry to fulfill the personnel requirements at all the levels so that departmental work does not suffer due to shortage of personnel, particularly keeping in view the expanded work-load in the post-restructuring phase. Vacancies at all levels, therefore, need to be filled immediately by timely promotions and recruitment at appropriate levels.

166. The Committee find that as part of restructuring, the existing system of internal audit was replaced by a new chain system of internal audit in the field offices of the Income Tax Department, ostensibly with a view to strengthening the internal check of assessments and refunds involving personnel from all assessment circles. Prior to restructuring, 150 audit parties (both Internal and special Audit Parties), consisting around 500 designated officials were entrusted with the exclusive responsibility for internal audit and each party was required to audit around 110 cases every month. After restructuring, 4626 officials, drawn from all ranges and assessing offices, were to be involved for the purpose. Audit scrutiny, however, has revealed that although, the number of cases audited internally had increased in absolute terms during the post-restructuring period, the percentage of shortfall with reference to total auditable cases had increased under the new system of Internal Audit after restructuring as compared to the pre-restructuring period. Obviously, the objective of strengthening the Internal Audit systems could not thus be achieved. The Ministry have also conceded that the structure of the chain system of internal audit has hindered its functionality and required certain modifications in order to ensure internal audit of the target group of assessments. A proposal in this regard has stated to have been formulated for consideration by the Board. The Committee hope the proposal for revamping the Internal Audit system would be finalised and implemented without any further delay. They would like to emphasise that Internal Audit, being an important

tool of management control, it is imperative that this instrument is judiciously used to exercise effective control over income tax operations and for checking leakage of tax revenue, and also enable it to act as a built-in mechanism to gauge the results achieved out of restructuring in the Department *vis-à-vis* the expected outcomes.

167. Consequent to restructuring, the Income Tax Department was expected to be well placed to deal with key areas of non-compliance. Thus, in turn, was to have led to an 'immediate' impact on tax revenues. Additional revenue amounting to Rs. 6000 crore was estimated to accrue from the impact on revenues from disposal of pending assessments. Further, increase in the number of first appellate authorities and Tax Recovery Officers (TROs) were expected to contribute an estimated Rs. 7500 crore to the revenues. Interest burden on refunds was also projected to come down by Rs. 350 crore per annum with early issue of refunds. The long run impact by way of tax buoyancy during the post-restructuring period was expected to be even much more than the estimates mentioned above. The Committee's examination of the subject reveal that the tax revenue estimated to accrue during the post-restructuring period did not actually materialise. The results expected in key areas of income tax operations namely assessments, appeals, refunds etc. also proved elusive. Instead, whatever increase in overall tax collections that was registered during the post restructuring phase was evidently less due to the implementation of the restructuring scheme as such and was attributable more to factors extraneous to the restructuring process. The Committee, therefore, desire that the Income Tax Department needs to look into the matter with a view to identifying the reasons as to why the requisite contribution to revenue could not materialize.

168. With a view to facilitating and improving taxpayers services, it has always been the endeavour of the Government to evolve simplified procedures and forms for filing income tax returns. However, the Committee understand that the Government now propose to revise the existing 'salar' form into a detailed one which requires filling up of a number of detailed information/particulars. What is more surprising is that even the salaried class including the pensioners are proposed to be included within the ambit of this detailed form. The intention behind rolling out this new detailed form is purported to be marking and trailing tax evasion by locating the mismatch in income and expenditure of individuals. The Committee, however, believe that converting and expanding the format and scope of the existing popular 'salar' return form into a complicated and detailed form may not achieve the stated objectives, as the 'salar' form, evolved over a period of time as a result of the continuing process of simplification and rationalization, had not only become popular but also widely acceptable. The Committee apprehend that the proposed detailed form may discourage people from filing their returns, thereby defeating the very purpose of the revision made. The modification of the 'salar' form initiated by the Government would therefore only result in reversing the processes initiated by the Department over the years in simplifying tax procedures, in providing a taxpayer friendly environment and bringing more taxpayers under the income tax net. The Committee desire that

the Government must review their decision in this matter so that the process of simplification and rationalization of tax procedure is not reversed. The Committee would like to emphasize that the filing of Income tax returns should be made as simple as possible so that more and more people are encouraged to file their income tax returns and no harassment is caused to taxpayers due to the complicated nature of the forms.

As the scope and incidence of tax avoidance or evasion is minimal among the salaried class and pensioners, the Committee are of the considered view that the Government must particularly endeavour not to cause any hardship or harassment to the taxpayers under these categories. The Committee would like to take this opportunity to clearly emphasize that the efforts of the Income Tax Department ought to be specifically directed and precisely focused on only those categories/classes that are fundamentally evasion-prone due to the nature of their activities or vocations. Instead of dispersing their precious energy and resources, the Income Tax Department may henceforth, as a part of their restructuring, re-orient their efforts in a direction that is more purposeful and fruitful.

169. In the light of the various shortcomings and pitfalls that have come to the fore in the implementation of the scheme of restructuring of the Income Tax Department, the Committee recommend that the Ministry should immediately address the areas of concern squarely, while making its internal controls and monitoring mechanism stronger, purposeful and more effective, enabling them to have a more realistic and accurate assessment of the improvements in efficiency achieved through restructuring. Broadly, the following steps may be taken for a better evaluation of the restructuring process:

- (i) Efforts need to be made to bring about efficiency, productivity and methodology of ascertaining revenue gains as mentioned in the proposal to the Union Cabinet and to ensure proper mechanism for monitoring and assessing the performance of the department in a transparent and verifiable manner.
- (ii) There should be faster disposal of pending cases, quicker disposal of appeals and reduction in delay in issue of refunds.
- (iii) The IT system of the Department should generate a specific set of information which would help effectively in monitoring areas of improvement as visualized in restructuring proposals.
- (iv) The system of internal audit may be periodically reviewed to ensure compliance with targets.

The Committee would like to be apprised within six months about the concrete steps taken in this regard.

NEW DELHI;
24 July, 2006

2 Sravana, 1928 (Saka)

PROF. VIJAY KUMAR MALHOTRA,
Chairman,
Public Accounts Committee.

APPENDIX I

CHAPTER-I OF THE REPORT OF THE COMPTROLLER AND AUDITOR GENERAL OF INDIA FOR THE YEAR ENDED 31 MARCH, 2004 (NO.13 OF 2005), UNION GOVERNMENT (DIRECT TAXES — SYSTEM APPRAISE) ON STATUS OF IMPROVEMENT OF EFFICIENCY THROUGH THE 'RESTRUCTURING' OF THE INCOME TAX DEPARTMENT

1.1 Introduction

1.1.1 Reform of tax administration is an integral part of tax reforms. With this background the Central Board of Direct Taxes (the Board) proposed to the Union Cabinet in July 2000, a scheme of restructuring of the Income tax department to improve **efficiency** and **effectiveness** through induction of technology.

1.1.2 An exponential increase in volume of work over the years was considered to have led to problems such as

- increase in pendency of income tax assessments;
- increase in number of stop filers;
- increase in arrears of taxes;
- increase in the number of taxpayers per Commissioner of Income Tax (CIT);
- deterioration in span of control at other levels that undermined efficiency and effectiveness;
- increase in average delay in issue of refunds resulting in huge outgo of interest;
- virtually inoperative existing manual system due to unprecedented growth in tax payers and large volumes of work breeding inefficiency, harassment to tax payers and corruption; and
- deteriorating career prospects of officers in the Indian Revenue Service at a fast pace making them lag behind other comparable Central Services.

1.2 Proposal

1.2.1 It was felt, after an 'in-house' exercise undertaken in the department (Mishra Committee Report, 1998), that any meaningful improvement in tax administration could come only through a 'comprehensive global solution' that provided for full-scale induction of information technology. This would improve taxpayer service, provide a user-friendly environment and enable handling of growing volumes of workload.

1.2.2 The proposal aimed, therefore, to restructure the department, re-train and re-orient its personnel through

- functionalization, to increase productivity;

- increase in the number of officers rationalizing the span of control for better supervision, control and management of workload;
- improvement of tax payer services; and
- reorientation, retraining and redeployment of surplus staff by increasing the levels of existing work norms and providing appropriate incentives like promotions commensurate with increased productivity.

1.2.3 Accordingly, the proposal involved creation/abolition of various posts in the department. Overall strength of the department, consisting of 57,989 posts before re-structuring was to be decreased to 55,234 after restructuring resulting in net decrease of 2,755 posts. The number of officers in higher cadres was increased whereas in the lower cadres, the number was decreased as shown in **Table 1** below:

Table 1: Strength of Officers

Post	Strength before restructuring	Strength after restructuring	Increase in strength
CCIT	36	116	80
CIT	402	698	296
Addl. CIT	339	469	130
JCIT	453	647	194
DCIT	1033	1240	207
ACIT	648	734	86
ITO	3261	4207	946
Total	6172	8111	1939

1.2.4 As the total number of tax payers had gone up from 160 lakh as on 1 April 1997 to 250 lakh as on 1 April 2000, the effective span of control would be over 1 lakh tax payers per CIT, 33,000 per Range and 6,600 per Ward. The proposal apparently recognized the fact that the number of employees need not increase continuously with increase in number of taxpayers and that the additional workload would be handled through greater computerization, increase in productivity and rationalization of work practices. Productivity per employee was proposed to be increased from 265 registered taxpayers as on 1 April, 1997 to 400 on 1 April, 2001, 600 as on 1 April, 2004, 900 as on 1 April, 2007 and 1,350 on 1 April, 2010. Thus, the same number of employees was expected to provide quality service to a much larger number of taxpayers. The term 'productivity' and how to measure and verify the same were not defined or described in the proposal to the Cabinet.

1.2.5 Redressal time of grievances of tax payers at the first level of appeals *viz.* CIT (Appeals) was sought to be reduced from 18 months to 6 months in line with internationally accepted norms. It was projected that this would increase substantial tax revenue locked in appeals and reduce uncertainty for taxpayers.

1.2.6 Besides strengthening and augmenting the representation of the department in each bench of ITAT*, addition of new Directorates, creation of additional posts of ministerial staff in areas of record management and reduction in posts of peons, it was proposed that internal work study norms for the long run would be recast based on cost of collection per registered tax payer and number of registered tax payers per employee.

1.2.7 Finally, direct tax laws, rules, administrative rules and guidelines were decided to be amended or relaxed as found necessary after following prescribed procedure in order to give full effect to the proposals.

1.3 Proposed impact or benefits of restructuring

1.3.1 Standardization of Work norms—As work norms were to be standardized for all employees with reference to the number of tax payers, every employee was expected to assume ownership of organizational goals resulting in higher productivity and effectiveness. No mention was made in the proposal as to when and with respect to which data, the work norms would be standardized.

1.3.2 Downsizing—There was to be downsizing of income tax bureaucracy by 4.75 percent. Stagnation was expected to be reduced at all level, which was to improve employee morale and prepare the department for induction of technology.

1.3.3 Cost Implications—By applying incremental cost method**, a saving of Rs. 3.05 crore in the short run, on salaries and wages under the 'current' rates of DA and rules for other per-requisites as a result of the proposal was projected. Accordingly, no additional expenditure was provided under this head. It was also mentioned that by adopting the 'Mean Pay Method', based on mean pay in each scale for estimating the costs of creating new posts, the financial implication of restructuring was estimated at Rs. 42 crore. Vacancies were proposed to be filled by promotion and not by direct recruitment and, therefore, there was to be much less immediate financial impact. It was concluded that even if the proposal did result in an estimated financial burden of Rs. 42 crore under the 'Mean Pay Method', this should be viewed as cost incidental to the process of modernization and induction of technology. Over a period of time, it was felt that there would be a marginal increase in expenditure, in relation to overall tax collection, incremental tax collection and the 'existing' wage bill. It was expected that consequent to modernization and computerization, average cost of collection would fall in spite of the estimated financial cost of restructuring. The mechanism of working out the cost of collection and the allocation of appropriate 'weightage' to pre-assessment collection that did not exactly test the investigation or assessment or recovery skills of the officers of the department, were not spelt out in the proposal to the Cabinet.

1.3.4 Productivity—Based on the workload relating to tax payers registered as on 1 April 1997, it was proposed that there would be an estimated 200 per cent increase in productivity at organizational level. Here also, the meaning of 'productivity', the method of monitoring or verifying the increase, if any, were not mentioned in the proposal to the Cabinet.

* ITAT—Income Tax Appellate Tribunal.

** Incremental Cost Method—Pay drawn on promotion minus pay drawn immediately before promotion.

1.3.5 Additional Revenue Gains—Consequent to restructuring, the Department was expected to be well placed to deal with key areas of non-compliance. This, in turn, was to have led to an **'immediate'** impact on revenues due to the enhanced ability to deal with 'stop-filers' estimated at Rs. 2800 crore. Another Rs. 6000 crore was estimated to be the additional impact on revenues from disposal of pending assessments. Increase in the number of first appellate authorities and Tax Recovery Officers (TRO) were expected to contribute an estimated Rs. 7500 crore to the revenues. Interest burden on refunds was projected to come down by Rs. 350 crore per annum with early issue of refunds. The long run impact in increased tax buoyancy was expected to be much more. The definition of 'immediate' impact on revenues was conspicuous by its absence in the proposal to the Cabinet.

1.3.6 Chain System of Internal Audit- A new chain system of internal audit was separately introduced in December 2001 by the Board in the field offices ostensibly with a view to strengthening the internal check of assessments and refunds besides expanding on coverage and involving personnel from all assessment circles. Prior to restructuring, the 'Internal Audit' set up, consisting of Internal Audit Parties (IAP) and Special Audit Parties (SAP) was a separate entity within the Department. New system of Internal audit was introduced after approval of the scheme of restructuring by the Cabinet, under the administrative powers of the Board.

1.4 Conditions of approval

The Cabinet approved the proposal of the Board/Department of Revenue on 31 August 2000 subject to the following conditions-

- An 'MoU' should be entered into between the Government and the Board in regard to increased revenue generation.
- In order to reduce public harassment and ensure accountability, specific steps needed to be taken to strengthen the vigilance and accounting machinery in the Board, and
- The redeployed manpower needed to be fully trained in computer technology within a period of five years so as to improve the tax administration.

1.5 Audit objectives

Audit undertook the review with a view to ascertaining;

- the extent of achievement of promised 'immediate' revenue gains;
- the status of fulfillment of conditions laid down by the Cabinet while according approval;
- the extent of improvement in efficiency after restructuring in areas such as assessments, issue of refunds, disposal of appeals, increased revenue generation, quality of assessments, effectiveness of anti-tax evasion measures, widening of tax base, number of tax payers serviced/handled, tax payer grievances and so on;

- whether there were verifiable and documented means of ensuring that the achievements are objectively measured, recorded and internally verified;
- that all direct and indirect costs involved in implementation of the scheme of restructuring have been properly and adequately accounted for and all expenditure has been incurred with the sanction of the competent authority in accordance with the prescribed procedure; and
- the extent of improvement, consequent to the change in or augmentation of the system of internal control and monitoring mechanism.

1.6 Audit methodology

1.6.1 Consultation with Ministry/CBDT

The Secretary, Ministry of Finance, Department of Revenue and the Board were informed in December 2003 about the selected review topics for Audit Report 13 of 2005 of the Comptroller and Auditor General of India requesting them to issue suitable instructions to field formations in the Income Tax Department to produce relevant records to audit teams from the field offices for examination and study.

1.6.2 In February 2004, references were made to the Board to make available their relevant records relating to the scheme of restructuring for audit scrutiny. Comments of the Board were also sought (13 February 2004) on certain basic and essential aspects of the scheme. These aspects included;

- status of implementation and monitoring of the scheme of restructuring,
- mechanism of monitoring progress and achievements,
- status of fulfillment of conditions subject to which Cabinet approved the scheme,
- status of realisation of immediate or short term benefits promised in the scheme,
- status of induction of technology,
- details of placement of manpower and training,
- details and position of improvement in efficiency and performance in various areas, and constraints faced in implementation of the scheme.

1.6.3 Reply was received from the Board in August 2004. It was stated that all activities of the department were being monitored by the respective Members of the Board within the sphere of their responsibilities. While giving details of status of implementation of the scheme, only overall and all India position regarding collection of taxes, arrear collections, refunds, appeals and status of induction of technology were given. These details have been analysed in the succeeding paras or related aspects. However, nothing was mentioned in the reply about the status of fulfillment of conditions laid down by the Cabinet and constraints faced by the department, if any, in implementing the scheme.

1.6.4 A reference was also made to the Secretary to Government of India, Ministry of Finance, Department of Revenue in August 2004 seeking the status of fulfillment of these conditions. Reply has not been received.

1.7 Offices selected for review

Nine field offices as detailed below, were selected for study and examination of the relevant and concerned records. The selection was done on the basis of their contribution to the total collections from direct taxes. In the financial year 2002-03, contribution from these states was Rs. 73,765.89 crore and formed 89 per cent of the total collection of Rs. 83,088.57 crore from direct taxes. The selected offices were:—

- Andhra Pradesh
- Delhi
- Gujarat
- Karnataka
- Madhya Pradesh
- Maharashtra
- Tamil Nadu
- Uttar Pradesh, and
- West Bengal

1.8 Period covered

Audit attempted to examine the relevant records of the department for the period 1999-2000 to 2003-04, *i.e.*, two years prior to and two years after the restructuring, including the year of restructuring.

1.9 CsIT/Units selected for review

CsIT were selected on the basis of revenue collection. Within the selected CsIT, selection of DCIT/ACIT was 100 per cent and that of ITO, one under each CIT was done on random basis as indicated in **Table 2** below:—

Table 2: Selection of units for review

States	Total CsIT	CsIT selected for review	CsIT who made available records	CsIT who did not respond	Total no. of units (DCIT/ACIT/ITO/TRO)	Total no. of units selected for review
Andhra Pradesh	30	14	14	-	252	68
Delhi	20	20	17	3	331	23
Gujarat	58	3	3	NIL	487	9
Karnataka	36	7	7	NIL	60	19
Madhya Pradesh	7	4	4	NIL	149	32
Maharashtra	46	27	22	-	690	50
Tamil Nadu	10	5	5	NIL	177	36
Uttar Pradesh	16	8	8	-	284	40
West Bengal	31	9	9	-	130	42

1.10 Cases selected not produced to audit

1.10.1 Records and returns identified for requisition were essentially monitoring reports, periodical returns to Board, assessment records and statistical data on recovery, appeals and refunds.

1.10.2 Records and returns of Income Tax offices in Ahmedabad, Allahabad/ Lucknow, Bangalore, Bhopal/Indore, Chennai, Delhi, Hyderabad, Kolkata/ Durgapur, Mumbai, Nagpur and Pune were selected for test check.

1.10.3 On an average 50 per cent of total scrutiny cases, 2 per cent of total summary cases, 10 per cent of total appeal cases (minimum 100 cases) and 10 per cent of highest value refund cases were selected for test check and statistical data.

1.10.4 Details of cases selected for test check are given in **Appendix 1**.

1.10.5 In these selected states, 20,018 scrutiny, 46,856 summary, 6,567 appeal and 14,522 refund cases were selected and requisitioned for the purpose of review. The department did not produce 6,576 scrutiny cases, 16,015 summary cases, 1,331 appeal cases and 5,304 refund cases.

1.10.6 Audit also compared and analysed the data available in its earlier Audit Reports furnished by the Board with the current data made available by the Board for arriving at some indicators of its performance relating to both 'pre' and 'posts' restructuring periods.

1.11 Meetings with departmental authorities

1.11.1 A number of meetings were held with departmental authorities at various levels in Delhi by the Principal Director/Director, Direct Taxes to ascertain the position regarding implementation of the restructuring scheme, monitoring and verification system worked out by the department to watch the results of the scheme, internal control and record management system developed by the department for the purpose and other related issues like production of records etc.

1.11.2 At the draft review report stage, an Exit Conference of Member (A&J) of the Board and Principal Director (Direct Taxes), office of the Comptroller and Auditor General of India was held to discuss the audit conclusions and recommendations proposed to be included in the Audit Report. The results of the discussion have been incorporated in this report at appropriate places.

1.11.3 In the initial meetings, the department could not provide information as to how implementation and results of the restructuring were being monitored and measured, who was the monitoring authority, what was the controlling system and other related issues. In one such meeting, it was reported that a three-member committee consisting of three CsIT, was formed to look after the implementation of the scheme of restructuring. Later this committee was stated to have been disbanded and all the records sent to Deputy Secretary, Ad VII section under Member (Personnel), of the Board. However, in a meeting with Ad VII section, only one main file (note portion and correspondence portion) regarding proposal of restructuring with related details and Cabinet approval was made available. No other files and records were stated to be available with Ad. VII section.

1.12 Audit findings

1.12.1 Staff position

One reason for restructuring of the department, as stated in the Cabinet Note, was poor career management and promotion prospect resulting in demoralization of officers in the Indian Revenue Service making them lag behind other comparable Central Services. At the same time, downsizing of the Income Tax bureaucracy was estimated at 4.75 per cent. Accordingly, various posts were created/abolished in the department. Though, there was expected to be an overall decrease of 2,755 posts in the staff strength of the department, in real terms the sanctioned strength of the supervisory, assessing, appellate and recovery officers increased whereas in the lower cadres the sanctioned strength decreased. Details are given in **Appendix 2**.

1.12.2 As per the proposal submitted to the Union Cabinet, on an average, for every CCIT there should have been 6.02 CsIT and for every CIT, there should have been 10.45 Addl. CSIT/JCIT/DCIT/ACIT/ITO.

1.12.3 Audit attempted to verify the position in selected charges. In Andhra Pradesh, Madhya Pradesh, Maharashtra and Uttar Pradesh charges, the number of CSIT per CCIT and the number of Addl. CsIT/JCIT/DCIT/ACIT/ITO per CIT were closer to the figures proposed to the Union Cabinet. However, these ratios were substantially different in the charges of Delhi (4 & 8.61), Gujarat (8.87 & 8.49), Karnataka (6 & 10.63) and West Bengal. (6.4 & 8.5).

1.12.4 Above analysis indicates that as compared to the recommended figures, there were relatively larger number of CCsIT and CsIT in Delhi, larger number of CsIT in Gujarat, larger number of Addl. CsIT/JCIT/DCIT/ITOs in Karnataka and lesser number of Addl. CsIT/JCIT/DCIT/ITOs in West Bengal charges.

1.12.5 Position of sanctioned posts pre-restructuring (as on 1 April 2001) and post-restructuring (as on 1 April 2003) of the selected charges are given in **Appendix 3**.

1.12.6 Audit noticed that all posts sanctioned in pursuance of restructuring had not been filled up. In Andhra Pradesh, Delhi, Gujarat, Karnataka, Maharashtra, Madhya Pradesh, Tamil Nadu, Uttar Pradesh and West Bengal charges as many as 3,750 posts from Inspector and below had remained unfilled as on 1 April 2003. Details are given in **Appendix 4**.

1.12.7 In the charges of Andhra Pradesh, Gujarat, Karnataka, Madhya Pradesh, Tamil Nadu and West Bengal, the vacancies as a percentage of sanctioned strength were substantially high and ranged from 11.29 to 18.38.

1.12.8 In Delhi charge, the post-restructuring working strength in the cadre of CIT/ Addl CIT exceeded the sanctioned strength. No reasons for the excess working strength were given.

1.12.9 Reasons for vacancies were generally stated to be promotion to the higher grade, transfer to other regions and retirement/VRS/death of officers.

1.12.10 Audit could not ascertain as to how posts in large numbers could continue to remain unfilled for long periods of over three years. This indicated that these posts would be redundant and not necessary. Incidentally, according to the instructions of Ministry of Finance in O.M. No (7)-E (Co-ord.)/93 dated 3 May 1993, these posts would be deemed to have been abolished if they continued to remain unfilled for a period exceeding one year.

1.12.11 During 'Exit Conference' the Board stated that vacancies in various cadres were due to factors outside the control of the Board. There were Government of India's instructions for making no fresh recruitments. Staff Selection Commission had not held any examination for fresh recruitments. Judicial proceedings on seniority related issues also contributed to delays. Recruitment rules for all cadres were also being formulated.

1.13 Cost implications

1.13.1 No additional expenditure was specifically provided for implementation of the scheme of restructuring though financial implication, by adopting "Mean Pay Method" was estimated at Rs. 42 crore.

1.13.2 Audit noticed that the department had not maintained separate accounts for expenditure relating to its restructuring. To analyse the impact of the restructuring on the expenditure of the department, various sub head wise details were called for. It was, however, intimated by the Board that details of expenditure on office furniture, accommodation, office building, telephone expenses, vehicles and other office expenses could not be provided as no such separate details were maintained.

1.13.3 The Board in their letter dated 20 August 2001 asked all the cadre controlling CCsIT to submit revised estimates of expenditure for budget of 2001-02 including additional funds required under different heads on account of restructuring. Detailed note was also required to be furnished showing the method adopted in working out the additional requirement.

1.13.4 The West Bengal charge in letter dated 18 September 2001 sent to the Board, made a budget proposal of Rs. 16.66 crore under the head "office expenses" for the financial year 2001-02 including a sum of Rs. 6.11 crore exclusively to meet expenditure relating to restructuring leaving the remaining amount of Rs. 10.55 crore for "office expenses general". An amount of Rs. 9.04 crore was sanctioned, without allocating any separate budget for restructuring, which was fully spent during the financial year 2001-02 under the head "office expenses". It was intimated that expenditure on restructuring was not exclusively monitored.

1.13.5 In CCsIT, Indore and Bhopal charges in Madhya Pradesh, the expenditure under the head 'office expenses' increased by 14.61 per cent, 35.95 per cent, 40.55 per cent and 19.14 per cent during financial years 2000-01, 2001-02, 2002-03 and 2003-04 respectively over the preceding financial years. This increase was due to booking of expenditure on "Modernisation and Technology" under the head "office expenses".

1.13.6 The Board, therefore, did not have a mechanism to monitor the progress of its promise of a saving of Rs. 3.05 crore on salaries and wages consequent to upgradation of posts after restructuring.

1.14 Computerisation Efforts

1.14.1 The computerisation of Income Tax Department was started in 1994. A review on "Computerisation in the Income Tax Department" has already appeared in Audit Report No.12 of 2000, which remarked as follows:—

- (i) **Computerisation programme suffered from lack of proper planning. None of the projected milestones could be achieved due to "ad hoc" changes made from time to time in the programme.**
- (ii) **Against the conventional practice, the hardware was procured well before framing of the software design document, leading to improper hardware sizing. Further, bottlenecks such as non-readiness of sites/terminal bank's delay in the implementation of software application systems and delayed acquisition of leased lines leading to non-connectivity of PCs with RCC/NCC¹ contributed to an overall slowdown in the implementation of the computerisation programme.**
- (iii) **While some progress was made in implementation of TAS² and PAN allotment, the progress in other areas like AIS³, AST⁴, IRLA⁵, TDS, MIS, EFS⁶ and MMS⁷ etc. did not gather momentum despite the hardware and software facilities existing for this.**

1.14.2 The Board informed in September 2001 that two standing committees had been formed with Member of the Board as Chairman and CCsIT as members to achieve the implementation of application system. Progress in areas such as processing of returns on AST software, OLTAS⁸ eTDS⁹ etc., appear to have since taken place. The field of computerisation, being technical and a potential subject for separate review has been left out of the purview of the present study.

1.15 Results of promised benefits of restructuring

1.15.1 The department was expected to be well placed to deal with key areas of non-compliance consequent to restructuring, which in turn was to have 'immediate' impact on revenues. The term 'immediate' was not defined. Additional revenue gains of Rs. 2,800 crore from dealing with stop filers, Rs. 6000 crore from disposal of pending assessments, Rs. 7500 crore by increasing the number of first appellate authorities and TROs and Rs. 350 crore from reduced burden of interest on refunds were estimated.

1.15.2 Audit attempted an analysis of each area of such additional revenue gain from a test check of records produced by the department. Results of the analysis are given below.

¹ Regional Computer Centre/National Computer Centre

² Tax Accounting System

³ Assessee Information System

⁴ Assessment Information System

⁵ Individual Running Ledger Account

⁶ Enforcement Information System

⁷ Manpower Management System

⁸ Online Tax Accounting System

⁹ Electronic Tax Deduction at Source

1.16 Collection from direct taxes

1.16.1 The Board intimated in August 2004 that the collection of Direct Tax revenue had increased from Rs. 68,613 crore in 2001-02 to Rs. 1,05,049 crore in 2003-04 which translated into an increase of Rs. 36,436 crore (53 per cent growth) over a period of three years after restructuring of the Department. While on the face of it, this is correct, a much deeper and careful analysis is required to appreciate the extent of improvement in efficiency that can be entirely attributed to the gains from restructuring. It also needs to be noted that pre assessment collections such as TDS, advance tax and self assessment tax contribute as much as 85 per cent of total collection which do not directly test either the investigative or assessment or recovery skills of the assessing or supervising or higher officers of the department. Audit attempted an analysis of these aspects despite various constraints as mentioned in paragraph 1.11 above.

1.16.2 Details of Direct Taxes collections for the period from 1991-92 to 2003-04 are given in **Table 3** below:

Table 3: Direct Taxes Collections

(Rs. in crore)

Year	Pre-assessment collections		Post-assessment collections			Total	Refunds collection	Net collection
	TDS Tax	Advance Tax	Self Asstt.	Regular Asstt.	Other Receipts			
1991-92	5976	8467	1177	1568	803	17990	3408	14582
1992-93	6209	9918	2038	2114	884	21164	3655	17509
1993-94	7283	11908	2407	3097	683	24566	5387	19179
1994-95	9604	14495	2414	3013	1011	30537	4686	25851
1995-96	13946	16349	2814	5769	1196	40073	7999	32074
1996-97	15334	19679	3289	5532	2528	46363	9562	36801
1997-98	13788	21061	4245	4954	1637	45685	8568	37117
1998-99	16258	24365	4736	6825	2841	55024	10255	44769
1999-2000	18546	30849	4509	6766	7165	67835	11488	56347
2000-01	28213	32614	5841	8121	5420	80211	12751	67460
2001-02	32672	34094	5479	9492	4094	85833	17220	68613
2002-03	36568	49158	6414	10745	2184	105069	22031	83038
2003-04	42955	58713	9852	16015	3150	130685	25736	104949

1.16.3 Though collection from direct taxes have increased at a higher growth rate in the two years post restructuring, the department did not maintain any analysis of the reasons for this growth so as to establish or correlate the same entirely or at least substantially to the positive outcome of an improvement of efficiencies in assessment and collection functions consequent to the implementation of the scheme of restructuring.

1.16.4 In the 'Exit Conference', the Board accepted that such details were not available with the Board/Department. It was, however, stated that once the process of computerization was completed, such information would be available. It was also felt that the quality of scrutiny assessments had improved in so far as only sustainable additions were being made reducing infructuous demands. However, no data in support of Board's claim was made available.

1.16.5 Audit analysed the average growth of net collections from 1991-92 to 2003-04. During pre-restructuring periode *i.e.*, 1991-92 to 2000-01, average annual rate of growth of net collection was 18.6 per cent and for the period 2001-02 to 2003-04, *i.e.*, post-restructuring period, it was 23.7 per cent. The period 2000-01 to 2001-02 has not been considered for the analysis being a transitional phase and as the growth rate was only 1.7 per cent in 2001-02. Comparison of two figures of average rate of revenue growth in the pre and post- restructuring periods shows that there was increase of about 5 per cent after restructuring.

1.16.6 Analysis of collections from 1991-92 to 2003-04 revealed that pre-assessment collection as a percentage of total collection during the period 1991-92 to 2003-04 fluctuated between 80 and 88 whereas post-assessment collection as a percentage of total collection varied from 20 to 12. During the period 1999-2000 to 2003-04, the share of pre-assessment collection in the total collection rose from 79.46 per cent to 85.33 per cent whereas that of post-assessment collection declined from 20.54 per cent to 14.67 per cent during the same period. Details are given in Table 4 below:—

Table 4: Pre-assessment/post-assessment collections

Year	Pre-assessment collection as a percentage of total collection	Post-assessment collection as a percentage of total collection
1991-92	86.83	13.18
1992-93	85.83	14.17
1993-94	87.92	15.39
1994-95	86.82	13.18
1995-96	82.62	17.38
1996-97	82.61	17.38
1997-98	85.57	14.43
1998-99	82.43	17.57
1999-2000	79.46	20.54
2000-01	83.12	16.88
2001-02	84.17	15.83
2002-03	87.69	12.31
2003-04	85.33	14.67

1.16.7 Although the total collections during the period 1999-2000 to 2003-04 had increased substantially, *it was more due to the increase in pre assessment collection rather than post assessment collection. The growth in collection, therefore cannot exactly be attributed to the special efforts of the Income Tax Department after restructuring especially in the fields of investigation, assessment or recovery.*

1.16.8 According to the Mishra Committee Report, that formed the basis of the proposal to the Union Cabinet, the post assessment collection at optimal level could be expected to be increased by an estimated Rs. 4000 crore per year. The proposal to the Cabinet had estimated 'immediate' additional revenue gains of Rs. 6000 crore due to disposal of pending assessments.

1.16.9 Audit attempted to verify the additional revenue gains as a result of disposal of pending assessments after restructuring. The Board, however, replied that the details only of total direct taxes collections could be provided. Details of additional demand raised through scrutiny assessments were not maintained and, therefore, could not be provided. Consequently, percentage of additional revenue to gross collection was also not provided. Audit was not able to ascertain as to how in the absence of these vital data and statistical information on performance, the Board was assuring itself of improvement in efficiency from its field formations in a regular and transparently verifiable manner.

1.16.10 During 'Exit Conference', the Board stated that increase in revenue was due to increase in efficiency after the restructuring of the department, which in turn had enabled them to process more summary assessments resulting in higher revenues. However, no data in support of Board's claim was made available.

1.16.11 In the absence of the above data, audit attempted an analysis of the post assessment collections. Average annual growth rate of **post assessment** collection for the period 1991-92 to 2000-01 worked out to 21.4 per cent whereas that for the period 2001-02 to 2003-04 worked out to 18.8 percent only. The growth rate of post assessment collection after restructuring period has, thus in fact, declined (**Table 3 refers**). The levels, indicated in the Mishra Committee Report or the proposal for restructuring, were thus, not only not achieved but the levels had declined compared to the position prior to restructuring.

1.16.12 Details collected from selected charges of Delhi, Maharashtra, Tamil Nadu and West Bengal also revealed that the growth in collection of direct taxes continued to be predominantly due to tax paid by the assesseees at the pre assessment stage. Position of these four States is given in **Appendix 5**.

1.17 Position of revenue collection in test checked cases

1.17.1 Audit made an attempt to analyse the position of revenue collection in test checked cases on the basis of income returned by assesseees, additions made during assessments, total demand raised, pre-assessment payments, appeals filed with revenue effect and cases decided in favour of or against revenue at first appeal. The information on above lines could be collected only from selected offices in Hyderabad (Andhra Pradesh charge), Delhi, Mumbai, Pune, Nagpur, Nasik, and Thane (Maharashtra charge), Bhopal and Indore (Madhya Pradesh charge), Tamil Nadu and Kolkata region (West Bengal charge).

1.17.2 Audit test checked 8539 cases in above charges and noticed that

- against the total demand of Rs. 14,548 crore raised in these cases, only Rs. 2820 crore of additional demand (19.4 percent) was raised as a result of assessment and investigation by the assessing officers,
- pre-assessment collections amounted to Rs. 11728.94 crore which represented 80.6 per cent of the total demand raised,
- appeals were filled in 857 of these 8539 cases involving revenue of Rs. 903 crore. Only 180 cases (21.0 per cent of appealed cases) involving revenue of Rs. 86.32 crore (9.6 percent of appealed revenue) were decided in favour of revenue at the first appellate stage. Remaining 677 cases (79 percent of cases appealed against) involving revenue of Rs. 816.83 crore (90.4 percent of revenue involved in these 857 cases) were either decided against the revenue or remained undecided. Details are given in **Appendix 6**.

1.18 Uncollected demands

1.18.1 Every year thousands of crores of rupees are collected from Direct Taxes and almost equal amount remain uncollected at the end of the year. After restructuring of the department, position of uncollected demands has not changed much as given in **Table 5** below.

Table 5: Uncollected demands

(Rs. in crore)

Year	Tax Collected	Tax remaining uncollected	Percentage of total tax demand remaining uncollected
1991-92	14574	8461	36.73
1992-93	16752	9211	35.48
1993-94	19183	10780	35.98
1994-95	25851	22699	46.75
1995-96	32074	28970	47.46
1996-97	36801	33585	47.72
1997-98	37116	41230	52.63
1998-99	44769	44143	49.65
1999-00	56347	52970	48.46
2000-01	67460	56431	45.55
2001-02	68613	90177	56.79
2002-03	83038	67638	44.89
2003-04	104949	88017	45.61

1.18.2 Percentage of uncollected demand had gone up to 56.79 in the year of restructuring of the Income Tax Department, *i.e.* 2001-02 from 45.55 in 2000-01. In 2002-03 and 2003-04, it came back to pre-restructuring level of about 45 percent.

1.18.3 With a view to further analyzing the position of collected and uncollected demands, records for 1999-00 to 2003-04 were 'test checked' in the nine selected field offices mentioned in para 1.17. Uncollected demand as a percentage of total demand in all the selected charges for this period was above the all India average implying that the percentage of total collection in these charges was below the all India average figures. Only exceptions noticed were Madhya Pradesh charge in 2000-01 and West Bengal charge in 2002-03. Details are given in **Appendix 7**.

1.19 Recoveries by TRO (All India position)

1.19.1 The administrative machinery of tax recovery was strengthened by allocating one TRO exclusively to each range consequent to the restructuring of the department. Collection unit in a range, headed by one TRO, has been made responsible for collection, recovery and refund of taxes. Accordingly, sanctioned strength of TROs was increased from 204 as on 31 March, 2001 to 472 after restructuring representing an increase of 131 percent. The sanctioned strength was further increased to 509 as on 31 March, 2003 but decreased to 462 as on 31 March, 2004.

1.19.2 The Board informed (August 2004) that cash collection out of arrear demand had increased from 6.85 percent as on 1 April, 2001 to 7.4 percent as on 1 April, 2003. There was stated to have been even greater improvement in the ratio of cash collection out of current demand, which was stated to have increased from 12.61 percent in 2001-02 to 24.55 percent in 2003-04.

1.19.3 Audit made an attempt to analyse the results of increased strength of TROs after restructuring on the revenue collections. Effective and efficient recovery of tax is possible if the tax recovery machinery is strong and fully equipped with the full strength of the sanctioned staff. Audit noticed that not only were there vacancies in almost all cadres of tax recovery machinery but also the sanctioned strength itself had declined from 2867 in 2001-02 to 2498 in 2003-04. The reasons for this decrease in sanctioned strength were not given. Position of staff as on 31 March, 2002, 31 March, 2003 and 31 March, 2004 is given in **Table 6** below.

Table 6: Manpower for Recovery

Cadre	2001-02		2002-03		2003-04	
	Sanctioned Strength	Number actually deployed (as percentage of sanctioned strength)	Sanctioned Strength	Number actually deployed (as percentage of sanctioned strength)	Sanctioned Strength	Number actually deployed (as percentage of sanctioned strength)
1	2	3	4	5	6	7
TROs	472	472	509	457	462	388
Inspectors/ Supervisors	1013	781	1080	793	753	615

1	2	3	4	5	6	7
UDCs	482	346	520	399	426	239
LDCs	238	119	251	164	199	92
Stenographers	207	125	237	131	251	124
Notice Servers	275	158	262	153	203	105
Peons	180	93	-	-	204	79
Total	2867	2094 (73.04)	2859	2097 (73.35)	2498	1642 (65.73)

1.19.4 According to Government of India, Ministry of Finance, OM No 7(7)-E (Co-ord)/93 dated 3 May, 1993, if a post remained unfilled for a period of one year or more it would be deemed to have been abolished. About 27 to 34 percent of the total sanctioned strength for recovery had remained unfilled during the period 2001-02 to 2003-2004. These posts should be deemed to have been abolished. Since the department has been conducting its business despite these posts remaining unfilled, the actual requirement of these unfilled posts and their continued inclusion in the sanctioned strength, is questionable.

1.19.5 Details of demands certified to TROs and demands recovered for 1998-99 to 2003-04, pre and post restructuring are given in the **Table 7** below:

Table 7: Tax demands certified to TRO and demand recovered

(Rs. in crore)						
Year	Demand at the beginning of the year	Demand certified during the year	Total demand	Demand recovered during the year (as a percentage of total demand)	Balance at the end of the year	Recovery per TRO
1998-99	3,581.80	2,490.08	6,071.88	1,173.66 (19.33)	4,898.22	6.99
1999-00	4,898.22	2,647.77	7,545.99	986.85 (13.08)	6,559.14	6.80
2000-01	6,559.14	3,706.51	10,265.65	2,223.74 (21.66)	8,041.91	12.42
2001-02	8,041.91	7,885.96	15,927.87	2,229.48 (14.00)	13,698.39	4.72
2002-03	13,698.39	6,752.72	20,451.11	4441.85 (21.72)	16,009.26	9.72
2003-04	16,009.26	5,320.28	21,329.54	4111.73 (19.28)	17,217.81	10.60

(Figures in parentheses depict demand recovered as a percentage of total demand certified)

1.19.6 The position of demand recovered during the year remained at round 19 percent after restructuring, which was already achieved in 1998-99. Recovery made per TRO has, however, improved.

1.19.7 Position of collections by TRO was attempted to be test checked in selected field offices. Details/information for 1999-2000 were not available and those for 2000-01 were available in Andhra Pradesh only. In respect of Karnataka, information regarding demand certified was available and demand recovered was not available. Thus, comparison of the position between the pre and post restructuring periods could not be made. The percentage of demand recovered by TROs in the selected field offices of Andhra Pradesh, Karnataka, Madhya Pradesh, Maharashtra, Tamil Nadu, Uttar Pradesh and West Bengal ranged from 0.30 percent to 18.65 percent during 2001-02 to 2003-04, which was much below the all India average figures of 13.08 percent to 21.72 percent. The only exception was the demand recovered of Rs. 0.24 crore out of certified demand of Rs. 0.44 crore (55 percent) in selected cases of Uttar Pradesh charge in 2001-02. Details with percentage of recovery are given in **Appendix 8**.

1.20 Revenue collections from search and seizure cases

1.20.1 The Income Tax Department conducts searches every year and seizes assets from suspected defaulters. **Table 8** below summarizes the position of prosecutions launched, convictions obtained, offences compounded and acquittals allowed, which has also featured as para 2.13 of Audit Report 12 of 2005.

Table 8: Prosecutions launched, Convictions obtained, Offences Compounded and Acquittals

Year	Number of Prosecutions launched			Disposal of cases			Cases pending	
	Opening balance	Additions	Total	Convictions (Percentage of total disposal of cases)	Compounding	Acquittals (Percentage of total disposal of cases)		Total (Percentage of total prosecutions launched)
1999-00	14,122	343	14,465	14 (0.87)	128	1,465 (91.16)	1,607 (11.11)	12,858
2000-01	12,858	235	13,093	20 (2.78)	279	419 (58.36)	718 (5.48)	12,375
2001-02	12,375	38	12,413	5 (2.36)	8	199 (93.87)	212 (1.71)	12,201
2002-03	12,201	102	12,303	18 (4.16)	11	404 (93.30)	433 (3.52)	11,870
2003-04	11,870	37	11,907	12 (10.43)	55	48 (41.74)	115 (0.96)	11,792

1.20.2 The total number of cases disposed off during the year had declined from 11.11 percent in 1999-2000 to 0.96 percent in 2003-04. Out of the total cases disposed off, only 10.43 percent of cases resulted in convictions in 2003-04. The proportion of acquittals or compounding was around 90 percent or more in all the years under consideration. The position of prosecutions launched, convictions obtained, offences

compounded and acquittals allowed has, therefore, not changed for the better after restructuring of the Income Tax Department.

1.20.3 As regards final revenue collections from 'Search and Seizure' cases, Board had informed that details of collections from such cases were not maintained, and hence did not have any mechanism to assess, monitor and enhance the efficiency of this very important instrument of deterrence against tax evaders.

1.21 Position of assessments

1.21.1 In order to improve the functional efficiency of the department, certain rationalisation measures at a structural level were introduced. This included separation of the assessment, collection and record keeping functions. Three separate units each for assessment, collection and record keeping were introduced. The officer incharge of a circle or ward in the assessment unit in a range was required to do only assessment work. Collection unit in a range, headed by one TRO, was made responsible for collection, recovery and refund of taxes and record keeping unit, headed by an office superintendent and assisted by tax assistants and daftaries had to manage the records for the entire range.

1.21.2 The Mishra Committee had observed that the number of scrutiny assessments both in absolute terms and as a proportion of the number of registered taxpayers had fallen considerably from approximately 60 percent in the late 1960s to approximately 30 to 40 percent in the late 1970s and down to a little over 5 percent in the 1990s. It was also stated therein that there was no scope for further reducing the number of scrutiny assessments as a proportion of the number of registered taxpayers, given the international practice and significant realisation from scrutiny assessments implying low level of compliance.

1.21.3 **Table 9** below gives the percentage of total assessments due, which were selected for scrutiny and also those completed after scrutiny during 1991-92 to 2003-04. The number of assessments due for disposal, completed and pending at the end of the year during the above period is given in **Appendix 9** which also features as Table 2.11 of Audit Report 12 of 2005.

Table 9: Assessments selected/completed after scrutiny

Year	Assessments selected for scrutiny as a percentage of total assessments due	Assessments completed after scrutiny as a percentage of total assessments due
1	2	3
1991-92	6.65	3.81
1992-93	6.41	3.59
1993-94	5.56	3.76
1994-95	4.53	2.99
1995-96	4.29	2.84

1	2	3
1996-97	4.36	3.02
1997-98	8.00	6.64
1998-99	3.25	1.10
1999-00	2.02	1.15
2000-01	1.15	0.72
2001-02	0.59	0.46
2002-03	2.37	0.46
2003-04	1.42	0.72

1.21.4 As per Mishra Committee Report, about 6 lakh¹ scrutiny assessments should have been possible to be completed with the total posts of assessing officers that would be available after restructuring. In absolute terms, the number of scrutiny assessments completed ranged from 1.68 lakh in 2001-02 to 1.97 lakh in 2003-04 after restructuring as against a minimum of 2.01 lakh in 1998-99 and a maximum of 9.20 lakh in 1997-98 achieved before restructuring. After restructuring, the number of scrutiny assessments completed thus was short of figure visualized by Mishra Committee Report and also did not reach the levels achieved before even though the number of assessing officers and supervising officers had increased from 6172 during pre-restructuring period of 8111 after restructuring. The number of summary assessments completed, however, had increased substantially from 1.40 crore in 1999-2000 to 2.14 crore in 2003-04. In percentage terms, number of summary assessments completed reached around 80 per cent in 2003-04 from a level of around 52 per cent in 1999-2000. But this was more due to processing of returns of AST software and outsourcing of data entry/refund generation work rather than the direct efforts of the assessing officers.

1.21.5 Assessments selected for scrutiny as a percentage of total assessments due had declined steadily from 6.65 percent in 1991-92 to 0.59 percent in 2001-02 except for 1997-98 when this figure was 8 percent. In 2002-03, this figure rose to 2.37 percent and again fell to 1.42 percent in 2003-04.

1.21.6 Assessments completed after scrutiny as a percentage of total assessments due was however much smaller than above and steadily declined from 3.81 percent in 1991-92 to 0.72 percent in 2003-04. Significantly, this figure has been about 1 or less than 1 percent in the last 5 years (less than 1/2 percent in 2001-02 and 2002-03).

1.21.7 Figures of scrutiny assessments, due for disposal in 2003-04 were shown as 3.88 lakh whereas at the end of March 2003, 7.22 lakh scrutiny assessments had remained pending for disposal. Normally, assessments due for disposal for 2003-04 should have been higher than 7.22 lakh as it would include pending assessments of earlier year and additions made during the year. Reasons for the discrepancy were not ascertainable.

¹ Based on number of officers on assessment duty in March 2004.

1.21.8 Audit attempted a 'test check' of the position of the assessments completed between 2000-01 to 2003-04 in the selected CCIT charges of Delhi, Maharashtra, Tamil Nadu and West Bengal with a view to assessing the position of assessments completed in summary manner as well as after scrutiny.

1.21.9 Audit noticed in the selected charges that in summary cases, the number of assessments due had increased from about 90 lakh in 2000-01 to about 1.1 crore in 2003-04. The disposal of summary cases had increased from 53.4 percent of cases due in 2000-01 to 73 percent in 2003-04. Details are given in **Appendix 10**. In case of scrutiny assessments in these selected charges, the number of assessments due had increased from about one lakh cases in 2000-01 to about 1.77 lakh cases in 2003-04. The completion of scrutiny assessments had decreased from 73.6 percent to 51.2 percent during the same period. Details are given in **Appendix 11**.

1.22 Outsourcing

Audit noticed that an expenditure of Rs. 4.25 crore had been incurred in 43 CsIT charges test checked in Andhra Pradesh, Gujarat, Madhya Pradesh, Maharashtra, Tamil Nadu and Uttar Pradesh during 2001-02 to 2003-04 on outsourcing of work relating to processing of income tax returns, allotment of PAN upto June 2003, dispatch of refund orders and Tax Accounting System (TAS). These costs were not projected in the proposal submitted to the Union Cabinet for approval. The increased number of summary assessments completed and refunds issued after restructuring would need to be viewed in the light of above position.

1.23 Productivity per Assessing Officer

Audit attempted to study the productivity of assessing officers in terms of the number of scrutiny assessments completed. The proposal made to the Union Cabinet by the Ministry/Board on 'restructuring of Income Tax Department' promised an estimated 200 percent increase in 'productivity' at organisational level. Neither did the proposal define 'productivity' nor did it state how to measure 'productivity'. This has to be viewed in conjunction with the fact that the number of scrutiny assessments selected depended upon the instructions issued centrally by the Board every year and CCsIT/CsIT had only a limited scope to add to the numbers. Mishra Committee Report envisaged that the Addl/Jt. Commissioner would be expected to do 25 scrutiny assessments per year and the Dy/Asstt. Commissioner and ITOs would be expected to do 125 and 160 scrutiny assessments per year respectively.

1.23.1 The average number of scrutiny assessments completed by each assessing officer (AO) at all India level during the years 1999-2000 to 2003-04 is given in **Table 14** below. This number has declined from 82.31 per assessing officer in 1999-2000 to 44.50 per assessing officer in 2003-04. It remained stagnant around 38 per assessing officer during 2001-02 and 2002-03 and improved slightly in 2003-04 but was still below the pre-restructuring level.

Table 14: Average productivity per AO (All India)

Year	No. of Scrutiny assessments completed	No. of Assessing officers	No. of scrutiny assessments completed per AO
1999-00	316223	3842	82.31
2000-01	225730	3842	58.75
2001-02	168010	4383	38.33
2002-03	172410	4436	38.87
2003-04	197390	4436	44.50

1.23.2 Scrutiny assessment is a full fledged and principal item of work of assessing officers and intended to act also as a deterrent against misuse of provisions of the Act and evasion of tax in subsequent assessments. Audit attempted a further analysis of “productivity” per assessing officer with reference only to scrutiny assessments completed in the selected states during 2000-01 to 2003-04. **Table 15** below has the details:—

Table 15: No. of assessing officers and scrutiny assessments completed

Charge	Assessing officers		Scrutiny assessments completed (average per assessing officer)			
	Pre-restructuring	Post restructuring as on 31.3.2004	2000-01	2001-02	2002-03	2003-04
Andhra Pradesh	208	221	17517 (84)	8119 (38)	9886 (46)	13051 (59)
Delhi	267	244	34561 (129)	5083 (21)	17267 (71)	15957 (65)
Gujarat	288	306	18313 (64)	19594 (64)	14707 (48)	6039 (20)
Karnataka	188	208	10708 (57)	6377 (34)	9141 (45)	9433 (45)
Madhya Pradesh	82	93	5337 (65)	4351 (47)	2680 (29)	6041 (65)
Maharashtra	NA	588	9932 (NA)	23385 (45)	28389 (48)	42876 (73)
Tamil Nadu	263	325	12544 (39)	7688 (24)	9423 (29)	15800 (49)
Uttar Pradesh	NA	240	25877 (NA)	6454 (27)	8338 (35)	12201 (51)
West Bengal	399	431	16058 (40)	15355 (36)	10412 (24)	16189 (38)

1.23.3 The number of scrutiny assessments completed in a year per assessing officer has either remained constant or improved slightly in Madhya Pradesh and Tamil Nadu during 2000-01 to 2003-04 while in the case of Andhra Pradesh, Delhi, Gujarat, Karnataka and West Bengal, this number declined. The above data was not available for Maharashtra and Uttar Pradesh charges for the prerestructuring period. In none of the states, however, this number was close to the figure indicated in the proposal for restructuring based on Mishra Committee Report. An average of 45 scrutiny assessments completed per assessing officer in 2003-04 would indicate that each assessing officer would be completing less than 4 assessments per month. a large force of assessing officers did not appear to have been gainfully utilised for completing more scrutiny assessments, after restructuring.

1.23.4 The Board stated, during 'Exit Conference', that the reason for decline in the average number of scrutiny assessments completed by an assessing officer after restructuring was close monitoring by the CsIT.

1.24 Dealing with stop filers

1.24.1 An assessee is termed as 'stop filer' if he has not filed return in all of the preceding 3 years and as 'non filer' if return has not been filed in any of the preceding 3 years. Mishra Committee report estimated an immediate additional revenue gain of Rs. 2800 crore as a result of enhanced ability to deal with 'stop filers' after restructuring.

1.24.2 Audit approached the Board/department to ascertain the number of stop filers, those brought back to tax net and additional revenue generated from them, as promised in the scheme. The Board intimated that the details of total number of assessees and stop filers identified could be provided but the number of stop filers brought back to tax net and additional revenue raised from such stop filers brought back to tax net were not available.

1.24.3 Audit subsequently made efforts to collect information on 'stop filers' by test checking the records of the Income Tax Department at field level. As shown in **Table 16** below, some information regarding stop filers brought back to tax net was available in West Bengal, Maharashtra, Uttar Pradesh and Madhya Pradesh but additional revenue realised from these stop filers was available only in West Bengal, Maharashtra and Uttar Pradesh charges.

(Rs. in crore)

Table 16: Position of stop filers—2001-02 to 2003-04*.

AG	Total number of assessees	Number of stop filers identified by the department	Number of stop filers brought back to tax net	Additional revenue raised	Number of stop filers as percentage of total assessees	Percentage of stop filers brought back to tax net
1	2	3	4	5	6	7
Andhra Pradesh	5196974	1320186	NA	NA	25.40	-
Delhi	NA	NA	NA	NA	-	-

1	2	3	4	5	6	7
Gujarat	6551558	961856	NA	NA	14.68	-
Karnataka	4797516	1251139	NA	NA	26.08	-
Madhya Pradesh	3648829	351011	3723	NA	9.62	1.06
Maharashtra	4101058	161952	4711	10.93	3.95	2.91
Tamil Nadu	8058717	1412074	NA	NA	17.52	-
Uttar Pradesh	4785586	614670	84505	6.10	12.84	13.75
West Bengal	571743	33653	3023	0.06	5.89	8.98

*a) Overall figures of stop-filers in West Bengal (WB) Region were not available. Figures given in above table are in respect of eight out of nine selected CsIT. (b) In Delhi charge details were not available. (c) In Tamil Nadu, Gujarat, Karnataka and Andhra Pradesh charges, though number of stop filers was available with the department, they did not have any data for number of stop filers on whom notices were served, who were brought back to tax net and against whom additional demand was raised. (d) Information regarding number of stop filers brought back to tax net were available in MP, UP and selected CsIT of WB. However, information regarding additional revenue raised from these stop filers was available only in UP and at selected CsIT of WB.

1.24.4 In the states for which information was available, the number of stop filers as a percentage of total number of assesseees varied from 3.95 in Maharashtra to 26.08 in Karnataka. The proportion of stop filers brought back to tax net varied from 0.11 percent to 13.75 percent.

1.24.5 Audit noticed that there was no clear policy in the department for monitoring and reducing the number of stop filers besides realizing the revenue due from them. Firstly, the basis on which the Mishra Committee report arrived at the figure of Rs. 2800 crore as the additional revenue gain from bringing back the stop filers to tax net after restructuring was not ascertainable. Secondly, no data in this regard was being maintained by the Board, in the absence of which, it was not clear as to how the Board was monitoring the progress of the objective of bringing back the stop filers to tax net. Thirdly, in the charges where this data was being maintained, the progress was slower than what was promised in the proposal.

1.24.6 The Board stated during 'Exit Conference' that they were aware of the issue but they were preoccupied with more significant/important areas. This issue would be taken up in due course.

1.25 Position of appeals

1.25.1 One of the benefits promised in the proposal of restructuring was immediate additional revenue gain of Rs. 7500 crore by increasing the number of first appellate authorities and TROs. Besides, period for redressal of grievance was to be reduced from 18 months to six months. The Board fixed 60 units (weightage of 2 units for company assessment and 5 units for search & enhancement cases) per month disposal norm for each CIT (A), which was increased to 75 units per month from June 2004.

1.25.2 As on 31 March 2004, 0.82 lakh appeals were pending disposal at the level of CIT(A). As far as maintenance of statistics in respect of revenue involved in appeals filed, disposed off and balance pending was concerned, the Board/department did not

have uniform system. While information on revenue involved in appeals was furnished to audit in Andhra Pradesh, Karnataka and partly in Maharashtra charges, the same was not available in Delhi, Gujarat, Madhya Pradesh, Tamil Nadu, Uttar Pradesh and West Bengal charges. The Board informed that the department was not maintaining statistics in respect of revenue involved in appeals filed, disposed off and balance pending. The Board later furnished some data according to which out of the total amount of Rs. 57,128 crore disputed/locked up in appeal with various appellate authorities as in January 2004, an amount of Rs. 26,260 crore (46 percent) was pending with CsIT(A).

1.25.3 Since the department was not maintaining statistics on revenue figures involved in appeals filed, disposed off and balance at the end of the year, the basis on which additional revenue gains of Rs. 7,500 crore by increasing the number of CsIT (A) and TROs had been promised in the proposal to the Union Cabinet was not ascertainable in audit.

1.25.4 The time series data on position of appeals at the level of CIT (A) is given in **Appendix 12**. Out of 1.68 lakh, 1.72 lakh and 1.97 lakh scrutiny assessments completed in each of the three years viz., 2001-02 to 2003-04, as many as 0.64 lakh (38 percent), 0.64 lakh (37.2 percent) and 0.73 lakh (37.1 percent) cases were appealed against by the assesseees indicating that a large proportion of cases were being appealed against.

1.25.5 Number of appeals disposed off was 1.08 lakh in 1999-2000, which declined to 0.98 lakh in 2000-01 and further to 0.80 lakh in 2001-02 before increasing to 1.18 lakh in 2002-03 and further declining to 0.95 lakh in 2003-04. There has been a steady decline in the number of appeals pending at the end of the year from 1.90 lakh in 1999-2000 to 0.82 lakh in 2003-04 which was due to the fact that addition of appeal cases at the level of CIT(A) came down from 0.82 lakh in 1999-2000 to 0.73 lakh in 2003-04. This, in turn, was attributable to the fact that the number of scrutiny assessments completed during the year came down substantially from 3.16 lakh in 1999-2000 to 1.97 lakh in 2003-04.

1.25.6 Addition to the number of appeals at CIT (A) level during the year as a percentage of scrutiny assessments completed during the year increased from 26 in 1999-2000 to 37.02 in 2003-04 implying, that the proportion of scrutiny assessments with which the assesseees were dissatisfied was increasing. The addition to appeals/writs/references at the ITAT level during the year as a proportion of number of cases disposed off by CIT (A) during that year increased steadily from 6.06 percent in 1999-2000 to 35.14 percent in 2003-04 implying that there was an increase in proportion of dissatisfied assesseees whose appeals were disposed off by CIT(A).

1.25.7 The average number of appeals disposed off by each CIT(A) in a month during 1999-2000 was 43.12, which came down to 27.53 during 2003-04. At this rate, the number of months required to clear the appeals pending as at the end of

1999-2000 would be 21.14 and 10.36 for those pending at the end of 2003-04. From the above analysis, we can conclude that the period of redressal of grievance at first appellate level although reduced could not come down to the promised level.

1.25.8 Audit also made efforts to ascertain the position of appeal cases through a test check at selected field offices. Audit confined itself to the implementation part of assurances given in the scheme of restructuring without going into the merits of the appeal orders. Results of audit analysis of some of the selected charges are given below:—

- In Hyderabad (Andhra Pradesh) charge, about 23 percent of appeals involving about 21 percent of the locked up revenue, in Bhopal & Indore (Madhya Pradesh) charge about 14 percent of appeals involving about 19 percent of locked up revenue, in Tamil Nadu 47 percent of appeals involving about 24 percent of locked up revenue, in Mumbai, Pune, Nagpur, Nasik and Thane (Maharashtra) charge, about 6 percent of appeals involving about one percent of locked up revenue and in Kolkata (West Bengal) charge about 38 percent of appeals involving about 14 percent of the locked up revenue were decided in favour of revenue. Rest of the appeal were either undecided or decided against revenue. In Delhi charge, 82 appeal cases filed between 2001-02 to 2003-04 involving revenue effect of Rs. 98.06 crore were still undecided.
- In Delhi charge, the number of CIT (A) had increased from 24 to 30 after restructuring. As on 31 March 2004, 1034 cases were pending for disposal. 186 cases were pending for more than 2 years, 240 cases for 1 to 2 years, 329 cases between 9 months to 12 months and 279 cases between 6 months to 9 months. Almost after the three years of restructuring, 1034 cases were still pending disposal for more than 6 months.
- In Maharashtra, Mumbai region, number of CIT (A) had decreased from 46 to 33 after restructuring. As on 31 March 2004, 3,149 appeals were pending with CIT (A). 141 of the pending appeals were more than 5 years old, 266 between 3 to 5 years, 1135 between 12 months to 36 months and 1607 between 6 months to 12 months old. Reasons for pendency were attributed to non-submission of details by the assesseees, delay in submission of details/replies by the assessin officers and frequent transfer of files from one CIT (A) charge to another CIT (A) charge.
- In Tamil Nadu charge, the number of CIT (A) had increased from 13 to 18 after restructuring. Data collected on appeal cases by audit from 6 selected offices of CsIT (A) situated at Chennai (CIT (A)-III, V, VII, IX & XI) revealed that out of total of 4351 cases disposed of during 2001-02 to 2003-04, 750 cases took more than 6 months for disposal and as many as 1138 cases were pending disposal as on 31 March 2004. Out of 1138 pending

appeals, 2 cases were more than 8 years old, 1 case between 6-8 years, 14 between 4-6 years, 27 between 3-4 years, 91 between 2-3 years, 174 between 1-2 years, 190 cases between 6 months to 12 months and 639 cases up to 6 months old.

- In West Bengal charge, the number of CIT (A) had increased from 14 to 48 after restructuring. Out of 607 cases pending disposal in four selected CsIT (A), 155 (25.54 percent of the total cases) were more than 6 months old and had not been disposed of 248 cases (61.23 percent of 405 disposed of cases) took more than 6 months for disposal.

1.25.9 The Board had not maintained records to segregate disposals made within 6 months, which was the period mentioned in the scheme of restructuring for disposal of appeal cases. Thus, the Board did not seem to have evolved the necessary control mechanism to ensure disposal of appeal cases within 6 months.

1.26 Interest on refunds

1.26.1 Where refund of any amount becomes due to the assessee under the Act, he is entitled to receive, in addition to the said amount, simple interest thereon calculated in the prescribed manner. One of the factors on which increase/decrease in the amount of interest paid depends, is the speed with which the refund is paid.

1.26.2 As per the proposal on restructuring, the interest burden was expected to be reduced by Rs. 350 crore per annum with reduction in average time taken in issue of refunds. Mishra Committee Report had estimated the average delay in issue of refunds during a year by dividing the total interest on refunds paid during the year by the product of the amount of refunds paid during that year and the rate of interest on refunds during that year. Mishra Committee arrived at an estimate of an average delay of 8 months in payment of refunds during 1996-97 and predicted that after restructuring, the average delay in issue of refunds would be reduced to four months.

1.26.3 Table 17 below shows time series data on refunds during 1990-91 to 2002-03

(Rs. in crore)

Table 17: Refunds

Year	Refunds	Interest paid on refunds	Interest paid on refunds as a percentage of refunds	Average delay in payment of refunds in months*
1	2	3	4	5
1990-91	2773	94.58	3.41	3.51
1991-92	3408	148.93	4.37	4.37
1992-93	3655	142.01	3.89	3.89
1993-94	5387	383.47	7.12	7.12

1	2	3	4	5
1994-95	4686	432.13	9.22	9.22
1995-96	7999	989.36	12.37	12.37
1996-97	9562	729.97	7.63	7.63
1997-98	8568	902.93	10.54	10.54
1998-99	10255	1854.14	18.08	18.08
1999-00	11488	1189.65	10.36	10.36
2000-01	12751	2622.37	20.57	20.57
2001-02	17220	1922.88	11.17	14.89
2002-03	22031	6268.07	28.45	42.74
2003-04	25736	4701.16	18.26	27.38

*Rate of interest on refunds has been taken as 1 percent per month during 1990-91 to 2000-01, 3/4 percent per month during 2001-02 and 2/3 percent per month during 2002-03 and 2003-04 for calculating average delay.

1.26.4 From Rs. 11,488 crore in 1999-2000, refunds paid had more than doubled to Rs. 25,736 crore in 2003-04. Interest paid on refunds as a percentage of refunds has also increased from 10.36 to 18.26 during the same period. Applying the same method as adopted in the Mishra Committee Report, the average delay in payment of refunds has been worked out and shown in column 5 of the table above. From an average delay of about 8 months in payment of refunds in 1996-97, it increased to 10.36 months in 1999-2000 and further to 27.36 months in 2003-04. Neither had the amount of interest paid nor the average delay in payment of refund decreased as promised in the proposal for restructuring.

1.26.5 Audit also attempted to check the number of cases where refunds were issued on indemnity bonds so as to assess the extent of non-availability of returns and the mechanism in place to ensure correctness of claims of refunds in such cases. The Board intimated that details of interest paid on refunds and the details of number of cases where refund was paid on indemnity bond could not be provided since no such statistical data was maintained.

1.26.6 Audit attempted to verify the position of refund cases in Delhi¹, Mumbai region and Uttar Pradesh² for 2001-02 to 2003-04. Uttar Pradesh charge could not

¹ In case of Delhi, data covers 4 CsIT only out of 20 as other CsIT did not respond.

² CIT Aligarh and ACIT Bulandshahar of CIT Meerut did not provide the details.

provide the statistics for 2001-02. The position of refunds in these charges is given in Table 18 below:—

(Rs. in crore)

Table 18: Position of refunds in selected charges

Charge	No. of cases where refund orders issued			Amount of refund paid			Interest paid on refunds (Percentage of refunds)			No. of cases where refund was paid on indemnity bonds		
	2001-02	2002-03	2003-04	2001-02	2002-03	2003-04	2001-02	2002-03	2003-04	2001-02	2002-03	2003-04
Mumbai Region	174047	562282	678705	1090.43	4945.78	7695.75	69.30 (6.35)	549.20 (11.10)	1123.86 (14.60)	81	186	269
Delhi	46328	100570	93855	23.44	337.81	558.30	3.09 (13.18)	52.35 (15.50)	65.28 (11.69)	271	635	800
U.P.	NA	239423	206297	NA	210.98	175.68	NA	18.97 (8.99)	12.54 (7.17)	NA	38	57

∞

1.26.7 In Mumbai region, the amount of interest paid on refunds increased from 6.35 percent in 2001-02 to 14.60 percent in 2003-04. In Delhi charge, the percentage decreased from 13.18 in 2001-02 to 11.69 in 2003-04. In Uttar Pradesh charge, comparison with pre-restructuring period could not be made as these statistics were not maintained.

1.26.8 The Board issued instructions in August 2002 that all returns in which refunds were payable to the assessee should be processed first and in cases requiring administrative approval, the refund should be issued within 30 days from the date of its determination. All refund orders should be sent to assesseees by 'Registered Post' with acknowledgement due within 7 days of the passing of the order resulting in the refund.

1.26.9 In one of the cases test checked in Mumbai CIT City-2 charge, the assessee M/s Bank of Baroda, had filed revised return for assessment year 2001-02 on 12 September 2002 claiming refund of Rs. 230.10 crore. The assessment was not completed initially in summary manner. The return was assessed after scrutiny on 30 January 2004, determining refund of Rs. 38.35 crore. An amount of Rs. 2.06 crore was paid as interest on refund for the period 1 April 2003 to 30 January 2004. Similarly, in the case of M/s Tata Power Company Ltd., return for 2001-02 was not assessed in summary manner and on completion of assessment after scrutiny on 25 February 2004, refund of Rs. 51.63 crore was issued. An amount of Rs. 3.26 crore was paid as interest on refund from April 2003 to February 2004. In both these cases, interest amount could have been saved had the returns been processed within the specified period in summary manner.

1.26.10 Audit also noticed that though the returns, in which refunds were payable, were attempted to be processed on priority, there were instances when the refunds were not issued in the specified time. Position in this respect in some charges is given below:

- In Mumbai City-2 charge, during financial year 2003-04 though refunds were determined in 85 cases involving an amount of Rs. 31.26 lakh in October 2003, and November 2003, the same were not issued to the assesseees till June 2004. There was also delay of 6 to 11 months in issuance of refund in 52 cases involving refund of Rs. 167.22 lakh.
- Test check of 792 refund cases in selected units of Delhi charge revealed that refund of Rs. 210.57 crore was issued including interest of Rs. 11.61 crore for delays ranging between 4 to 30 months during 2001-02 to 2003-04.
- In Tamil Nadu, out of 854 refund cases test checked, refunds were issued belatedly with delays ranging from 1 to 5 years in 25 cases.

1.27 Delay in implementation of the scheme

1.27.1 Cabinet approved the scheme in August 2000. Revised jurisdictions were notified on 31 July 2001 for implementation by the department from 1 August 2001.

1.27.2 Audit, however, noticed that the scheme was implemented in West Bengal charge in what appeared to be three phases, commencing only after one year from 1 August 2001. The Board had forwarded the revised jurisdiction of all the CsIT of West Bengal charge to the Department on 31 July 2001. Before receipt of the Board's notification, the Department in West Bengal issued an order on 27 July 2001 for creation

of ranges/circles/wards in West Bengal under the scheme of restructuring with effect from 1 August 2001. Revised jurisdiction of all CsIT and Ranges on the basis of special trade and pin codes indicating the cases/assesseees was notified. The order was not completely in conformity with the orders of the Board. The Board did not accept the order which was cancelled only on 19 October 2001 as per the directions of the Board. The department informed the Board on 1 January 2002 certain difficulties faced in implementing the Board's instruction and submitted a draft modified jurisdiction order for Board's approval. This draft order included certain omissions stated to have been made by the Board in their original notification. The Board informed the CCIT on 18 April 2002 that the revised jurisdiction had not been acceded to. A draft proposal defining the new jurisdiction exclusively on the basis of pin codes and special trade/business was again sent to the Board on 18 June 2002. The Board directed the West Bengal Circle to ascertain the position of the workload of the CsIT as well as to inform the period required to implement the proposed revised jurisdiction. The Board finally issued a notification on 30 July 2002 amending its original notification. Thus, one year was spent in revising the original orders and in implementation of the scheme of restructuring.

1.27.3 CCIT, Kolkata informed the Board on 11 October 2002 that there were discrepancies in the revised order of July 2002 such as:

- employees with Banks, some PSUs *e.g.* ONGC, IOC etc. had been omitted;
- employees with Railways and Non-Government Schools had been assigned simultaneously with CIT -VI and CIT -VIII, and
- no provision had been made for residuary cases whose names were either left out or not specifically mentioned.

1.27.4 Even after one year of the issue of the orders notifying the implementation of restructuring, instances of individual assesseees having salary as one of the sources of income who were not able to file their returns due to ambiguities in the jurisdiction order, were noticed. The said ambiguities were set right by issuing an order dated 10 September 2003, *i.e.*, after a lapse of two years from the implementation of the scheme in August 2001.

1.27.5 The office of the I.T.O Ward 3(4) under the Additional Commissioner of Income Tax, Range-III, Kolkata was holding concurrent jurisdiction with the assessment office at Andaman and Nicobar Islands and had no assessment record in its possession till 14 July 2004. The jurisdiction of assessing officers under Addl. CIT, Range-III was revised to create jurisdictional charge of ITO Ward 3(4) to include certain assesseees of Kolkata, District Howrah and North and South 24 Paraganas *vide* order dated 9 July 2004, *i.e.*, after a lapse of almost three years from the implementation of restructuring in August 2001.

1.27.6 During the period between the Board's first notification dated 31 July, 2001 and the cancellation of the CCIT's order of 27 July 2001 on 19 October 2001, the assessments and other functions were carried out by the department. After the cancellation of the CCIT's order on 19 October 2001 till the Board's notification on

30 July 2002, no jurisdictional order in light of Board's earlier notification was issued. The assessments completed during this period could, therefore, be open to challenge by assesseees on the ground that the assessing officers did not have the authority to carry out the assessment work during this period. In a reply department stated that the first order dated 27 July 2001 was an interim arrangement. However, no such scope was available in the scheme of restructuring. Audit could not quantify the adverse impact that could have arisen due to this peculiar situation in West Bengal charge.

1.28 Transfer of records

1.28.1 After restructuring, records were transferred '*en masse*' from the erstwhile special ranges, company circles, wards and business circles to the newly created ranges, circles and wards on the basis of pin codes and alphabetical order. The Board informed that after restructuring, there was complete overhaul of the jurisdiction of various charges resulting in transfer of records from the old and abolished units to the newly created ranges and assessing officers. Considering the urgency of the work, entire efforts were stated to have been directed towards ensuring the dismantling of old charges in 2001. It was, therefore, essential that the assessment and related records of all assesseees and assessments were carefully, fully and properly transferred from the old to the new jurisdictions.

1.28.2 Audit attempted to ascertain the mechanism adopted by the Board and its field formations to ensure that all the records were properly accounted for and transferred so that interests of revenue are safeguarded adequately and arrear demand in particular was carried forward completely for pursuing recovery even after restructuring. The Board informed that dismantling work having been completed in 2001-02 and the old units abolished, it was unlikely that any details regarding the transfer of records as required by audit could be provided.

1.28.3 Audit made efforts to independently ascertain the position of transfer of records in selected offices. Information was available only partly in Delhi, UP and Madhya Pradesh charges and is shown in Table 19 below:

Table 19: Transfer of records in selected offices

	Delhi (Only 3 CITs out of 20)	Uttar Pradesh (Only Muradabad)	Madhya Pradesh (Only Indore-II)
Number of files due from old units	74574	821	60610
Number of files received in new units	68496	799	3604
Number of files not traceable	NA	6	376
Other reasons for non-transfer	NA	NA	NA

1.28.4 In Gujarat, Karnataka and West Bengal charges, no details regarding transfer of records were available with the department. In Chennai (Tamil Nadu), details were available only in respect of files received. No other details regarding files due from old units and files not traceable were available. No information was forthcoming whether all the arrear demand was correctly and promptly transferred and accounted for in the new revised jurisdictions.

1.29 Chain system of internal audit

1.29.1 As part of restructuring, the existing system of internal audit was replaced by a new chain system of internal audit in the field offices of the Income Tax Department ostensibly with a view to strengthening the internal check of assessments and refunds involving personnel from all assessment circles. The new system of internal audit was introduced from 6 December 2001, after the approval of the scheme of restructuring by the Cabinet, under the administrative powers of the Board.

1.29.2 In the new internal audit system, all auditable cases, where assessments were completed during a month were to be internally audited by the end of the following month. Audit of one range was to be conducted by another range. Audit functions were to be a continuous process and involvement of assessing officers for performing simultaneous audit functions was expected to not only ensure spread of workload but also not consume much time.

1.29.3 Prior to restructuring, 150 audit parties (both Internal Audit parties and Special Audit Parties), consisting around 500 designated officials, were entrusted with the exclusive responsibility for internal audit and each party was required to audit around 110 cases every month. After restructuring, 4626 officials, drawn from all ranges and assessing offices, were to be involved for the purpose.

1.29.4 An analysis of the all India performance of internal audit from 1999-2000 to 2003-2004, including both pre-restructuring and post-restructuring periods, is given in Table 20 below:—

Table 20: Internal Audit

Financial Year	Total auditable Cases	Target for Disposal	Total cases Audited	Shortfall with reference to total auditable cases	
				No.	Percentage
1999-2000	3,70,617	1,98,000	1,94,859	1,75,758	47.42
2000-01	4,16,791	1,98,000	1,90,774	2,26,017	54.22
2001-02	4,84,263	4,84,263	41,837	4,42,426	91.37
2002-03	15,57,231	15,57,231	3,60,748	11,96,483	76.83
2003-04	18,40,561	18,40,561	6,90,841	11,49,720	62.46

Although, the number of cases audited internally had increased in absolute terms during 2002-03 and 2003-04, the percentage of shortfall with reference to total auditable cases had increased under the new system of internal audit after restructuring as compared to the pre-restructuring period implying that the internal controls of the department had weakened.

1.29.5 Position of internal audit in respect of Andhra Pradesh, Delhi, Gujarat, Madhya Pradesh, Uttar Pradesh and West Bengal charges is given in Table 21 below. Information in respect of Karnataka for the year 2001-2002 to 2003-04 and in respect of Tamil Nadu for 2001-02 and 2002-03 was not available.

Table 21: Internal Audit in selected charges

Year	Andhra Pradesh		Delhi		Gujarat		M.P.		U.P.		West Bengal**	
	Audita- ble cases	Audited cases (percentage target achieved)	Audita- ble cases	Audited cases (percentage target achieved)	Audita- ble cases	Audited cases (percentage target achieved)	Audit- able cases	Audited- cases (percentage target achieved)	Audit- able cases	Audited cases (percentage target achieved)	Audit- able cases	Audited cases (percentage target achieved)
2001-02	41332	4277 (10.34)	19679	4500 (22.87)	55130	11294 (20.49)	13599	Nil	4082	1279 (31.33)	2764	2214 (80.10)
2002-03	54460	5644 (10.36)	125799	17987 (14.30)	146733	44423 (30.27)	39570	6969 (17.61)	30324	4607 (15.19)	5760	3643 (63.24)
2003-04	136098	84100 (61.80)	127316	55371 (43.49)	139827	47112 (33.69)	46475	7220 (15.53)	16506	3534 (21.41)	6992	5320 (76.09)
Total	231890	94021 (40.54)	272794	778.58 (28.54)	341690	102829 (30.09)	99644	14189 (14.24)	50912	9420 (18.50)	15516	11177 (72.03)

* The figures pertain to CsIT Bareilly, Muradabad, Lucknow-I, Ghaziabad and Circle I&II Meerut.

** Overall figures were not available. Above figures are compiled from selected CsIT.

1.29.6 In terms of absolute numbers, the cases audited internally increased during 2003-04 as compared to 2001-02 in all the selected charge (Andhra Pradesh, Delhi, Madhya Pradesh, Uttar Pradesh and West Bengal) for which information was available. However, number of cases internally audited as a percentage of auditable cases during the same period improved in the case of Andhra Pradesh and Delhi whereas it decreased in the case of Madhya Pradesh, Uttar Pradesh and West Bengal. All the selected charges except Gujarat and West Bengal could achieve only around 50 percent of auditable cases.

1.29.7 In the case of Madhya Pradesh and Uttar Pradesh, shortfall in achievement of target was consistently higher than the all India average in the post-restructuring period. The position of Uttar Pradesh was similar to the All India trend both in terms of absolute numbers as well as percentage of target achieved. In the case of Andhra Pradesh, Delhi, Madhya Pradesh and West Bengal, position was similar to All India position in terms of absolute number but dissimilar in terms of percentage of targets achieved.

1.30 Questionnaire feedback from tax consultants

1.30.1 Twenty Income Tax Consultants/Chartered Accountants were given a questionnaire (Appendix 13) in each of the charges of Delhi, Gujarat, Karnataka, Madhya Pradesh, Tamil Nadu, Uttar Pradesh and West Bengal, seeking their views on the status of facilities, efficiency, tax payers' assistance etc., in the department after restructuring.

1.30.2 Audit received total 42 responses, which need to be interpreted with caution. Firstly, the sample size was very small and concentrated in larger cities only. Also, only some of the leading tax consultants were approached and feed back could involve some element of subjectivity.

1.30.3 Despite these limitations, the exercise had shown interesting results, which are given below:

- * Three fourth of the respondents had good or satisfactory perception of the new organisational structure of the Income Tax Department.
- * About 59 percent of respondents were satisfied with the stabilization of changed jurisdictional charges.
- * Only about 38 percent of respondents were not satisfied due to problems faced in filing of returns whereas about 80 percent were not satisfied due to problems faced at the level of assessments.
- * About 88 percent of the respondents felt that delay occurred at assessment level.
- * About 76 percent of respondents were not satisfied with the position of refunds after restructuring whereas 83 percent of respondents felt that the situation of tracing the records was not satisfactory.
- * Sixty two percent of the respondents felt that overall record management in the department after restructuring was not satisfactory.

- * 71 percent of the respondents were satisfied with their experience at 1st appellate stage with reference to time taken for disposal.
- * 69 percent of the respondents were satisfied with their experience at 2nd stage of appeal with reference to time taken.
- * 69 percent of the respondents were not satisfied with the departments' efforts to trace tax evaders.
- * 77 percent of the respondents were not satisfied with the position in respect of transactions generating incomes going unreported.
- * About 66 percent of the respondents were satisfied with the department's decision of outsourcing of certain areas of department's work.

1.31 An international comparison

1.31.1 In the absence of definition of terms such as efficiency and productivity in the note of the Ministry to the Union Cabinet seeking approval to the scheme of restructuring and subsequent inability of the Board to provide details of performance in areas such as efficiency of collection, cost of collection, results of scrutiny assessments and search cases, tackling stop filers, speed in disposal of appeals, arrear demand and so on. Audit attempted a comparison of commonly developed and utilised performance indicators or parameters of efficiency of national tax bodies of some OECD countries and the **Income Tax Department of India**¹ as worked out from other available sources.

1.31.2 Audit is aware that such comparison between tax systems of different countries would need to be made with caution as significant differences exist in the respective tax systems, such as:—

- * variation in the organisational set up and the degree of autonomy of the national tax bodies across different countries,
- * the national tax body in many countries is also responsible for customs administration and/or various other non-tax functions,
- * in many countries, employee tax payers are required to file annual income tax returns, while in many others, most employees are relieved of such a requirement owing to the special tax withholding arrangements,
- * tax burdens vary across different countries,
- * in some countries, the collection of social contributions has also been integrated into the tax administration arrangements, and
- * the level of automation and computerisation may also vary.

1.32 Analysis of staff investment for compliance functions

1.32.1 The ratio of number of staff deployed for audit and other verification work to total number of staff of the national revenue agency of the selected countries expressed as a percentage has been compared. In the case of Income Tax Department of India, the ratio of staff engaged in scrutiny as well as summary assessment functions to total sanctioned strength during 2000-01 has been taken for the above comparison.

¹Use of 'Tax Administration in OECD countries: Comparative Information series (2004)' prepared by Forum on Tax Administration Compliance Sub-group has been made for this purpose.

1.32.2 The above ratio for the Income Tax Department of India was higher than that of national revenue agencies of USA and France but lower than that of revenue agencies of other selected countries. Details are given in **Appendix 14**.

1.33 Comparison of Gross and Net Tax Arrears

1.33.1 The ratios of gross and net tax arrears to the denominator of annual net revenue collections of taxes of the selected countries have been compared. A declining trend in the ratio is likely to indicate improved payment compliance and/or arrear collection effectiveness. The difference between gross and net arrears refers to tax debts, the collection of which is subject to objection, dispute and/or litigation. In addition, the size of a revenue body's reported volume of tax arrears will be affected by write off policies concerning uncollectible debts, which may vary substantially between member countries.¹

1.33.2 The ratios relating to Income Tax Department of India in this regard were significantly higher as compared to those of the national revenue agencies of other selected countries. Collection of tax arrears thus seems to be a significant problem in many of these countries and an acute problem in India.

1.33.3 There is also a large difference between gross arrears and net arrears in India signifying that a large portion of arrears in India would fall in the category of 'arrears not fallen due, amounts claimed to have been paid pending verification, amounts for which instalments were granted and amounts stayed/kept in abeyance'. Details are given in **Appendix 15**.

1.33.4 Audit hopes that the above analysis would help the Ministry devise objective, practical and yet ambitious parameters and a transparent mechanism for measuring efficiency and increasing productivity of its workforce in relation to administration of direct taxes, in particular.

1.34 Conclusion and recommendations

1.34.1 There has been increase in revenue generation even though no MoU appears to have been signed with Ministry by the Board. However, to what extent this increase was directly attributable to efficiency and productivity improvement after restructuring was not ascertainable in audit.

1.34.2 Large number of vacancies remained unfilled at various levels for a number of years indicating that these posts may not really be needed as the department's performance at 'macro level' in terms of overall revenues realized and summary assessments completed has apparently improved despite these 'vacancies'.

1.34.3 After restructuring the average number of scrutiny assessments completed by an assessing officer had declined.

1.34.4 In the absence of details of taxes collected as a result of scrutiny assessments that have stood the test at least at the first stage of appeal, improvement effected in the quality of scrutiny assessments was not ascertainable.

¹ As per the OECD publication, *ibid*, annual reports of a number of countries (e.g., Australia and UK) indicate that fair amounts of tax are written off each year as uncollectible in accordance with standard government debt management policies. In other countries, action to write off uncollectible debts is fairly limited and is often only executed after very long periods of time have elapsed.

1.34.5 Efficiency in bringing stop filers back to the tax net and the accretion of revenues from this function was not ascertainable.

1.34.6 Almost 46 percent of outstanding arrear demand was locked up in appeals at the CIT (A) level. Pace of disposal of appeals at CIT(A) level was not according to the norms indicated by the Board and there was no mechanism to establish and relate the fact of release of tax demands for recovery to increase in the number of posts of CIT(A) after restructuring.

1.34.7 The increase in number of summary assessments disposed off annually after restructuring was almost entirely attributable to "outsourcing" of data entry and related functions rather than direct efficiency or productivity improvement after restructuring.

1.34.8 No separate account of the costs incidental to restructuring was maintained. Substantial expenditure consequent to and related to restructuring exercise had not been separately budgeted or projected as expenditure relating to restructuring.

1.34.9 In the absence of clear targets and well-designed, transparent and verifiable criteria of efficiency and productivity, monitoring has suffered. There was no dedicated or clearly identified Wing/Division in the Board to effectively monitor efficiency and productivity improvements consequent to restructuring.

1.34.10 Apart from introduction of new chain system of internal audit and new system of inspections, online tax accounting system and electronic filing of TDS returns, audit did not notice evidence of concerted efforts at rationalization of work norms or practices after restructuring. Despite the introduction of the chain system of internal audit, the internal control of the department had weakened after restructuring.

Audit recommends that the IT System of the Department should generate a specific set of information which can help effectively monitor areas of improvement as visualized in restructuring proposals.

Audit recommends that working of chain system of internal audit be reviewed to ensure compliance with targets.

Audit recommends that criteria for working out the 'cost of collection' be critically reviewed after suitably factoring in substantial 'pre assessment' collections, so as to present a transparent and correct picture of efficiency and productivity of the department in this important areas.

1.35 During the Exit Conference, the Board accepted that there was no mechanism to monitor efficiency and productivity improvements in the manner sought by audit consequent to restructuring. The reason given was that the computerization of the department in different phases was in progress and once the computerization would be completed, a mechanism to monitor the efficiency and productivity improvements of the department would also come in place. Board intimated that the steps to rationalize the work norms of practices in the department were being taken. A separate Committee was preparing the duty lists for all the cadres after the restructuring. Coming to large scale vacancies, it was attributed to problems in finalising recruitment rules which were now stated to be ready except for 'two' cadres. The entire process of restructuring would take between 5 to 7 years to stabilize.

Appendix 1
Chapter-1
Status of improvement of efficiency through the 'Restructuring' of the Income Tax Department
Details of cases produced to Audit
(Reference in para 1.10.4)

States	Total no. of cases				Cases selected for review				Cases not produced to audit			
	Scrutiny	Summary	Appeal	Refund	Scrutiny	Summary	Appeal	Refund	Scrutiny	Summary	Appeal	Refund
Andhra Pradesh	5104	39952	9293	NA	2552	799	929	414	673	32	723	-
Delhi**	1407	98074	—	—	661	2925	108	802	40	236	26	10
Gujarat	1977	434349	NA	NA	197	8686	NA	NA	130	8482	-	-
Karnataka	2008	200081	3932	36094	1012	3877	394	3624	436	2347	158	1767
Madhya Pradesh	18409	3755360	18355	421147	2407	3217	191	3229	NIL	NIL	NIL	NIL
Maharashtra	7676	138966	2479	16414	4138	3018	246	2003	3273	2093	220	1720
Tamil Nadu	3375	208612	15798	7047	1776	4372	4351	854	NIL	NIL	NIL	NIL
Uttar Pradesh	8897	693814	NIL	NIL	2778	15063	NIL	NIL	NIL	NIL	NIL	NIL
West Bengal	8897	239481	2335	35444	4497	4899	348	3596	2024	2825	204	1807
Total (Percentage of cases not reduced over cases selected for review.)	54409	5808689	52192	516146	20018	46856	6567	14522	6576 (33%)	16015 (34%)	1331 (20%)	5304 (36%)

** Data pertaining to post restructuring period only was provided. Appeal and Refund case figures included in scrutiny and summary cases.

Appendix 2
Composition of officers and staff at different levels in the Income Tax Department

(Reference in para 1.12.1)

Sl. No.	Post (pre-restructuring)	Re-designated Post	Sanctioned strength (pre-restructuring)	Sanctioned strength (post restructuring)	Increase in sanctioned strength	Decrease in sanctioned strength
1.	CCIT	CCIT	36	116	80	—
2.	CIT	CIT	402	698	296	—
3.	Addl. CIT	Addl. CIT	339	469	130	—
4.	JCIT	JCIT	453	647	194	—
5.	DCIT	DCIT	1033	1240	207	—
6.	ACIT	ACIT	648	734	86	—
7.	ITO	ITO	3261	4207	946	—
8.	ITI	ITI	8106	9490	1384	—
9.	Supr.-I	Sr. AO	5	5	—	—
10.	Supr.-I	AO-II	35	35	—	—
11.	Supr.-I	AO-III	280	774	494	—
12.	Supr.-II	Office Supdt.	710	2468	1758	—
13.	HC/Asstt.	Sr. Tax Asstt.	2240	8030	5790	—
14.	TA	—	5609	—	—	5609
15.	UDC	Tax Asstt.	9408	8931	—	477
16.	LDC	LDC	6947	311	—	6636
17.	RC	RC	223	—	—	223
18.	Sr. PA	Sr. PA	364	814	450	—
19.	Steno-I	Steno-I	1255	1000	—	255
20.	Steno-II	Steno-II	2510	2002	—	508
21.	Steno-III	Steno-III	2511	2002	—	509
22.	DPA Gr B	DPA Gr B	55	55	—	—
23.	DPA Gr A	DPA Gr A	81	104	23	—
24.	DEO Gr D	—	23	—	—	23
25.	DEO Gr C	Sr. Tax Asstt.	35	35	—	—
26.	DEO Gr B	Sr. Tax Asstt.	264	264	—	—
27.	DEO Gr A	Tax Asstt.	394	394	—	—
28.	NS	NS	3172	3172	—	—
29.	GES. OPR	GES. OPR	23	23	—	—
30.	Jamedar	Jamedar	144	144	—	—
31.	Daftry	Daftry	695	3108	2413	—
32.	Peon	Peon	6692	3968	—	2724
33.	Watchman	Watchman	2322	2322	—	—
34.	Sweeper	Sweeper	435	435	—	—
35.	Farash	Farash	276	276	—	—
36.	Mali	Mali	45	45	—	—
37.	Others	Others	62	62	—	—

Appendix 3

**Position of Sanctioned Strength of selected charges
(Reference para 1.12.5)**

Designation	Andhra Pradesh			Delhi			Gujarat			Karnataka		
	Pre	Post	+/-	Pre	Post	+/-	Pre	Post	+/-	Pre	Post	+/-
CCIT/DGIT	1	5	4	8	20	12	3	8	5	2	6	4
CIT/DIT	12	30	18	64	80	16	35	71	36	18	36	18
Ad CIT/JCIT	30	52	22	119	121	2	61	85	24	33	57	24
DCIT/ACIT	68	98	30	242	212	-30	140	150	10	79	105	26
ITO	180	230	50	271	356	85	287	368	81	164	221	57
Inspector	433	504	71	626	746	120	753	863	110	396	476	80
Tax Assistant	684	825	141	1430	1345	-85	455	662	207	311	320	9
Others	1573	1208	-365	2472	2072	-400	3165	2523	-642	1381	1247	-134
Total	2981	2952	-29	5232	4952	-280	4899	4730	-169	2384	2468	84

Designation	Madhya Pradesh			Mumbai Region			Chennai			Uttar Pradesh			West Bengal		
	Pre	Post	+/-	Pre	Post	+/-	Pre	Post	+/-	Pre	Post	+/-	Pre	Post	+/-
CCIT/DGIT	1	3	2	4	15	11	3	10	7	3	7	4	5	15	10
CIT/DIT	11	20	9	81	101	20	32	60	28	26	44	18	41	96	55
Ad CIT/JCIT	18	32	14	143	153	10	66	100	34	58	81	23	91	126	35
DCIT/ACIT	42	53	11	273	249	-24	153	178	25	123	130	7	187	216	29
ITO	82	107	25	466	559	93	266	356	90	240	340	100	383	474	91
Inspector	244	277	33	NA	NA	NA	600	727	127	708	833	125	1062	1191	137
Tax Assistant	141	263	122	NA	NA	NA	377	0	-377	850	642	-208	889	1717	828
Others	1206	962	-244	NA	NA	NA	3174	3236	62	3145	2849	-296	6671	5076	-1595
Total	1745	1717	-28	967	1077	110	4671	4667	-4	5153	4926	-227	9329	8911	-418

Appendix 4
Vacancies in Field Offices of Income Tax Department
(Reference para 1.12.6)

Designation	West Bengal			Chennai			Delhi			Karnataka		
	S.S.	W.S.	+/-	S.S.	W.S.	+/-	S.S.	W.S.	+/-	S.S.	W.S.	+/-
CCIT/DGIT	15	12	-3	10	9	-1	20	20	0	6	5	-1
CIT/DIT	96	67	-29	60	52	-8	80	90	10	36	32	-4
Ad CIT/JCIT	126	101	-25	100	98	-2	121	146	25	57	53	-4
DCIT/ACIT	216	187	-29	178	128	-50	212	160	-52	105	86	-19
ITO	474	472	-2	356	352	-4	356	354	-2	221	221	0
Inspector	1191	1004	-187	727	683	-44	746	686	-60	476	458	-18
Tax Assistant	1717	1649	-68	0	0	0	1345	1251	-94	320	278	-42
Others	5076	4340	-736	3236	2818	-418	2072	1780	-292	1247	1049	-198
Total	8911	7832	-1079	4667	4140	-527	4952	4487	-465	2468	2182	-286
Vacancies as a percentage of Sanctioned strength			12.10			11.29			9.39			11.59

Designation	Madhya Pradesh			Andhra Pradesh			Uttar Pradesh			Gujarat		
	S.S.	W.S.	+/-	S.S.	W.S.	+/-	S.S.	W.S.	+/-	S.S.	W.S.	+/-
CCIT/DGIT	3	3	0	5	4	-1	7	7	0	8	7	-1
CIT/DIT	20	19	-1	30	30	—	44	44	0	71	58	-13
Ad CIT/JCIT	32	20	-12	52	52	—	81	77	-4	85	89	+4
DCIT/ACIT	53	41	-12	98	78	-20	130	100	-30	150	119	-31
ITO	107	107	0	230	229	-1	340	320	-20	368	368	—
Inspector	277	254	-23	504	479	-25	833	785	-48	863	754	-109
Tax Assistant	263	217	-46	825	765	-60	642	650	8	662	471	-191
Others	962	741	-221	1208	1164	-44	2849	2324	-525	2523	2230	-293
Total	1717	1402	-315	2952	2801	-151	4926	4307	-619	4730	4096	-634
Vacancies as a percentage of Sanctioned strength			18.34			5.11			12.56			13.40

(Note: S.S. denotes Sanctioned Strength and W.S. denotes Working Strength)

Appendix 5

(Reference in para 1.16.12)

Details of pre-assessment and post assessment collections in selected charges of Delhi*

(Rs. in crore)

Financial year	Pre assessment collections	Post assessment collections	Total collections	Percentage of pre assessment collections over total collections	Percentage of post assessment collections over total collections
1	2	3	4	5	6
2001-02	46.23	130.95	177.18	26.10	73.90
2002-03	432.64	172.09	604.73	71.54	28.46
2003-04	439.15	352.97	792.12	55.43	44.57

Details of pre-assessment and post assessment collections in selected charges of Maharashtra

(Rs. in crore)

Financial year	Pre assessment collections	Post assessment collections	Total collections	Percentage of pre assessment collections over total collections	Percentage of post assessment collections over total collections
1	2	3	4	5	6
1999-00	1296.07	52.80	1348.87	96.09	3.91
2000-01	1615.23	125.73	1740.96	92.78	7.22
2001-02	17371.79	3107.38	20479.17	84.83	15.17
2002-03	39567.10	5962.19	45529.29	86.90	13.10
2003-04	39024.67	7257.06	46281.73	84.32	15.68

*Figures for 1999-2000 and 2000-01 were not available.

**Details of pre-assessment and post assessment collections in selected charges of
Tamil Nadu**

(Rs. in crore)

Financial year	Pre assessment collections	Post assessment collections	Total collections	Percentage of pre assessment collections over total collections	Percentage of post assessment collections over total collections
1	2	3	4	5	6
1999-00	3909	467	4376	89.33	10.67
2000-01	4705	562	5267	89.33	10.67
2001-02	4839	464	5303	91.25	8.75
2002-03	5902	469	6371	92.64	7.36
2003-04	6821	576	7397	92.21	7.79

**Details of pre-assessment and post assessment collections in selected charges of
West Bengal**

(Rs. in crore)

Financial year	Pre assessment collections	Post assessment collections	Total collections	Percentage of pre assessment collections over total collections	Percentage of post assessment collections over total collections
1	2	3	4	5	6
1999-00	2962.22	385.99	3312.21	88.35	11.65
2000-01	3756.57	351.66	4108.23	91.44	8.56
2001-02	3873.92	412.86	4286.78	90.37	9.63
2002-03	4624.20	303.97	4928.17	93.83	6.17
2003-04	5659.51	437.97	6097.48	92.82	7.18

Appendix 6
(Reference in para 1.17.2)

Charge	Total cases test checked	Returned income	Assessed income	Total demand raised	Pre assessment collections	Pre assessment collection as a percentage of total demand	Net demand after deducting pre assessment collections	Post assessment collection as percentage of total demand	(Rs. in crore)			
									Cases where appeals were filed		Appeals decided in favour of revenue at 1st stage	
									Cases	Amount	Cases	Amount
Andhra Pradesh	2646	2143.52	2456.99	799.35	673.21	84.2	126.14	15.8	206	64.52	48	13.74
Delhi	621	6732.72	7514.25	3936.36	3513.84	89.3	422.51	10.7	82	98.06		
Maharashtra	672	4605.79	10498.53	5734.57	4546.6	79.3	1187.97	20.7	34	364.83	2	2.79
Madhya Pradesh	325	91.22	289.75	122.69	57.51	46.9	66.39	54.1	209	44.1	29	3.9
Tamil Nadu	1776	547.57	3316.43	1487.57	1072.36	72.1	415.21	27.9	62	74.73	29	18.32
W. Bengal	2473	3350.45	5787.82	2564.18	1910.39	74.5	653.79	25.5	295	354.10	111	47.57
Total	8513	17471.27	29863.77	14644.72	11773.91	80.4	2872.01	19.6	888	1000.44	219	86.32

Position of revenue collection in test checked cases of Hyderabad (Andhra Pradesh)

(Rs. in crore)

Year	Total cases test checked	Returned income	Assessed income	Total demand raised	Pre-assessment collections (percentage of total demand)	Net demand after deducting pre-assessment of collections	Cases where appeals were filed with revenue effect		Appeals decided in favour of revenue 1st stage	
							Cases	Amount	Cases	Amount
1	2	3	4	5	6	7	8	9	10	11
1999-00	26	5.63	5.75	2.64	2.29 (86.74)	0.35	—	—	—	—
2000-01	71	4.04	5.23	2.06	1.12 (54.37)	0.94	9	8.43	4	0.05
2001-02	320	206.10	228.10	80.53	34.98 (43.44)	45.55	27	6.64	13	5.08
2002-03	816	859.57	1060.17	340.64	307.19 (90.18)	33.45	56	48.94	27	8.55
2003-04	1413	1068.18	1157.74	373.48	327.63 (87.72)	45.85	114	0.51	4	0.06
Total	2646	2143.52	2456.99	799.35	673.21 (84.22)	126.14	206	64.52	48*	13.74

*Remaining 158 cases involving revenue of Rs. 50.78 crore were decided against revenue.

Position of revenue collection in test checked cases of Delhi

(Rs. in crore)

Year	Total cases test checked	Returned income	Assessed income	Total demand raised	Pre-assessment collections (percentage of total demand)	Net demand after deducting pre-assessment of collections	Cases where appeals were filed with revenue effect		Appeals decided in favour of revenue 1st stage	
		Amount	Amount	Amount	Amount	Amount	Cases	Amount	Cases	Amount
1	2	3	4	5	6	7	8	9	10	11
2001-02	73	5610.07	6062.44	3398.53	3044.78 (89.59)	353.74	11	67.33	Nil	Nil
2002-03	190	208.03	258.69	131.15	86.98 (66.32)	44.17	30	7.10	Nil	Nil
2003-04	358	914.62	1193.11	406.68	382.08 (93.95)	25.60	41	23.63	Nil	Nil
Total	621	6732.72	7514.25	3936.36	3513.84 (89.27)	422.51	82	98.06	Nil*	Nil

Details for the period 1999-2000 and 2000-01 were not available.
No appeal case was found decided in the cases test checked.

*No appeal case was found decided in these test checked cases.

Position of revenue collection in test checked cases of Mumbai, Pune, Nagpur, Nasik and Thane (Maharashtra)

(Rs. in crore)

Year	Total cases test checked	Returned income	Assessed income	Total demand raised	Pre-assessment collections (percentage of total demand)	Net demand after deducting pre-assessment of collections	Cases where appeals were filed with revenue effect		Appeals decided in favour of revenue 1st stage	
							Cases	Amount	Cases	Amount
1	2	3	4	5	6	7	8	9	10	11
2001-02	83	1028.01	2512.75	1891.39	1209.67 (63.96)	681.72	4	47.00	1	0.005
2002-03	134	127.19	1182.73	726.65	395.57 (54.44)	331.08	16	14.43	—	—
2003-04	455	3450.59	6803.05	3116.53	2941.36 (94.38)	175.17	14	303.40	1	2.79
Total	672	4605.79	10498.53	5734.57	4546.60 (79.28)	1187.97	34	364.83	2	2.79

Details for the period 1999-2000 and 2000-01 were not available.

Position of revenue collection in test checked cases of Bhopal and Indore (Madhya Pradesh)

(Rs. in crore)

Year	Total cases test checked	Returned income	Assessed income	Total demand raised	Pre-assessment collections (percentage of total demand)	Net demand after deducting pre-assessment collections	Cases where appeals were filed with revenue effect		Appeals decided in favour of revenue 1st stage	
		Amount	Amount	Amount	Amount	Amount	Cases	Amount	Cases	Amount
1	2	3	4	5	6	7	8	9	10	11
1999-00	13	6.40	11.10	5.74	3.71 (65.00)	2.03	9	1.80	4	0.98
2000-01	9	5.38	9.43	4.88	2.78 (56.97)	2.10	9	2.10	1	0.50
2001-02	127	40.27	73.28	39.55	11.22 (28.37)	28.33	90	24.14	16	1.72
2002-03	103	24.22	104.98	42.22	25.22 (59.73)	17.20	57	6.00	8	0.70
2003-04	73	11.70	90.96	30.30	14.58 (48.00)	16.73	44	10.06	NA	NA
Total	325	91.22	289.75	122.69	57.51 (46.87)	66.39	209	44.10	29*	3.90

*Remaining 180 cases involving revenue of Rs. 40.20 crore were decided against revenue.

Position of revenue collection in test checked cases of Tamil Nadu charge

(Rs. in crore)

Year	Total cases test checked	Returned income	Assessed income	Total demand raised	Pre-assessment collections (percentage of total demand)	Net demand after deducting pre-assessment collections	Cases where appeals were filed with revenue effect		Appeals decided in favour of revenue 1st stage	
	Cases	Amount	Amount	Amount	Amount	Amount	Cases	Amount	Cases	Amount
1	2	3	4	5	6	7	8	9	10	11
2001-02	314	366.20	768.17	342.38	166.97 (48.76)	175.41 (51.23)	28	61.34	10	10.71
2002-03	528	-154.61	759.54	445.51	367.25 (82.43)	78.26 (17.56)	22	8.50	16	7.41
2003-04	934	335.98	1788.72	699.68	538.14 (76.91)	161.54 (23.08)	12	4.89	3	0.20
Total	1776	547.57	3316.43	1487.57	1072.36 (72.09)	415.21 (27.91)	62	74.73	29	18.32

Position of revenue collection in test checked cases of Kolkata (West Bengal)

(Rs. in crore)

Year	Total cases test checked	Returned income	Assessed income	Total demand raised	Pre-assessment collections (percentage of total demand)	Net demand after deducting pre-assessment collections	Cases where appeals were filed with revenue effect		Appeals decided in favour of revenue 1st stage	
		Amount	Amount	Amount	Amount	Amount	Cases	Amount	Cases	Amount
1	2	3	4	5	6	7	8	9	10	11
1999-00	315	-36.20	564.18	248.81	186.50 (74.96)	62.30	62	64.53	27	16.04
2000-01	374	503.94	1203.60	536.07	211.41 (39.44)	224.67	62	49.93	27	5.07
2001-02	413	707.09	1367.12	626.60	431.01 (68.79)	195.59	61	123.26	15	18.78
2002-03	583	93.14	390.59	247.22	184.93 (74.80)	62.29	91	114.10	33	7.67
2003-04	788	2082.48	2262.33	905.48	896.54 (99.01)	8.94	19	2.28	9	.01
Total	2473	3350.45	5787.82	2564.18	1910.39 (74.50)	653.79	295	354.10	111	47.57

Appendix 7
(Reference para 1.18.3)

Position of uncollected demand of selected charges

(Rs. in crore)

Year	A.P.		Delhi		Gujarat		Karnataka		Maharashtra	
	Collected	Uncollected (Uncollected demand as a percentage of total demand)	Collected	Uncollected (Uncollected demand as a percentage of total demand)	Collected	Uncollected (Uncollected demand as a percentage of total demand)	Collected	Uncollected (Uncollected demand as a percentage of total demand)	Collected	Uncollected (Uncollected demand as a percentage of total demand)
1999-00	154.55	1141.15 (88.07)	—	—	2650.94	3691.87 (28.20)	722.53	1270.56 (63.75)	148.69	411.63 (73.46)
2000-01	138.81	1027.62 (88.10)	3799.00	4171.00 (52.33)	2839.26	2532.11 (55.44)	858.64	957.24 (52.71)	166.27	720.79 (81.26)
2001-02	214.00	1131.07 (84.09)	4399.00	4800.00 (52.18)	2476.27	3878.49 (61.03)	620.36	1490.90 (70.62)	8510.31	25453.29 (74.94)
2002-03	277.34	1356.82 (83.03)	4509.00	5481.00 (54.86)	4453.32	3725.64 (45.55)	756.06	1735.92 (69.66)	20552.01	60804.49 (74.74)
2003-04	286.82	1513.28 (80.07)	6439.00	6686.00 (50.94)	2114.56	3294.73 (60.91)	794.71	2063.40 (72.19)	19505.33	92039.00 (82.51)

(Rs. in crore)

Year	Madhya Pradesh		Tamil Nadu		Uttar Pradesh		West Bengal		Maharashtra	
	Collected	Uncollected (Uncollected demand as a percentage of total demand)	Collected	Uncollected (Uncollected demand as a percentage of total demand)	Collected	Uncollected (Uncollected demand as a percentage of total demands)	Collected	Uncollected (Uncollected demand as a percentage of total demand)	Collected	Uncollected (Uncollected demand as a percentage of total demand)
1990-00	—	—	261.00	2389.00 (90.15)	501.94	1824.37 (78.42)	3610.65	4743.95 (56.78)		
2000-01	861.29	494.69 (36.48)	330.00	2364.00 (87.75)	659.50	2317.10 (7.84)	4387.55	6082.94 (58.10)		
2001-02	774.31	2102.70 (73.09)	164.00	2716.00 (9430)	160.02	874.67 (85.90)	3400.06	4867.62 (58.87)		
2002-03	2620.94	3335.32 (56.00)	324.00	2729.00 (89.39)	297.44	913.21 (75.43)	6038.09	4642.96 (43.47)		
2003-04	1903.84	4891.12 (71.98)	340.00	3554.00 (91.27)	204.69	861.10 (80.79)	4471.75	4725.84 (51.38)		

Appendix 8

**Details with percentage of recovery in selected charge
(Reference para No. 1.19.7)**

(Rs. in crore)

Year	Andhra Pradesh		Karnataka		Madhya Pradesh		Maharashtra	
	Demand certified	Demand recovered	Demand certified	Demand recovered	Demand certified	Demand recovered	Demand certified	Demand recovered
1990-00	NA	NA	NA	NA	NA	NA	NA	NA*
2001-01	176.60	3.46 (1.96)	NA	NA	524.37	NA	NA	NA
2001-02	326.44	10.65 (3.26)	15.55	1.91 (12.28)	541.60	8.20 (1.51)	724.25	2.84 (0.39)
2002-03	447.76	25.38 (5.67)	19.30	1.71 (8.86)	2609.12	9.98 (0.38)	1037.92	44.43 (4.28)
2003-04	524.20	24.27 (5.28)	18.60	1.04 (5.59)	3372.39	9.98 (0.30)	1445.60	83.59 (5.78)

*Not available.

Year	Tamil Nadu		Uttar Pradesh		West Bengal	
	Demand certified	Demand recovered	Demand certified	Demand recovered	Demand certified	Demand recovered
1999-00	NA	NA	NA	NA	NA	NA
2000-01	NA	NA	NA	NA	NA	NA
2001-02	606.00	110.00 (18.15)	0.44	0.24 (54.54)	11.03	0.96 (8.70)
2002-03	724.00	135.00 (18.65)	3.38	0.32 (9.47)	18.10	1.08 (5.97)
2003-04	1093.00	140.64 (12.87)	7.82	0.32 (4.09)	20.38	2.95 (14.47)

(MP data is excluding TRO for CIT Jabalpur I & II, Gwalior and Ujjain,
UP figures pertain to only TRO Range-II, Allahabad)
WB figures for test checked units only).

Appendix 9
Position of Assessments
(Reference Para 1.21.3)

Year	Assessments for disposal			Assessments completed			Assessments pending			Percentage of assessments completed		
	Scrutiny	Summary	Total	Scrutiny	Summary	Total	Scrutiny	Summary	Total	Scrutiny	Summary	Total
1991-92	534174	7500631	8034805	306495	6406919	6713414	227679	1093712	1321391	57.38	85.42	83.55
1992-93	509406	7443737	7953143	285867	6217076	6502943	223539	1226661	1450200	56.12	83.52	81.77
1993-94	498327	8465578	8963905	336894	7086282	7423176	161403	1379296	1540699	67.61	83.71	82.81
1994-95	453353	9551857	10005210	298669	7294097	7592766	154684	2257760	2312444	65.88	76.36	75.89
1995-96	455446	10166080	10621526	301534	7998319	8299853	153912	267761	2321673	66.21	78.68	78.14
1996-97	528154	11583285	12111439	366329	10082930	10449259	161825	1500355	1662180	69.36	87.05	86.28
1997-98	1108764	1271169	13859933	920701	10354926	11275627	188063	2396243	2584306	83.04	81.21	81.35
1998-99	598076	17832219	18430295	201849	8352299	8554148	396227	9479920	9876147	33.75	46.84	46.41
1999-2000	553637	26846956	27401593	316223	14043850	14360073	237414	12804106	13041520	57.12	52.31	52.41
2000-01	360141	31046331	31406472	225730	18633110	18858840	134411	12413221	12547632	62.68	60.02	60.05
2001-02	217540	36508234	36725774	168010	1998558	20126568	49530	16549676	16599206	77.23	54.67	54.80
2002-03	894415	36900040	37794455	172410	33792795	33965205	722005	3107245	3829250	19.28	91.58	89.87
2003-04	388275	26978376	2736651	197390	21380490	21577880	190885	5597886	5788771	50.83	79.25	78.84

Appendix 10

(Reference Para 1.21.19)

Position of summary assessments in selected charges

Charge	2001			2001-02			2002-03			2003-04		
	Due	Completed	Balance	Due	Completed	Balance	Due	Completed	Balance	Due	Completed	Balance
Delhi	1980326	933271	1047055	2229912	1132472	1097440	2776368	2645557	130811	1777576	1416945	360631
Maharashtra	1496960	1071110	425850	6460290	3598494	2861796	7041804	6511630	530174	4673362	3329390	134972
Tamil Nadu	1608273	1218187	390086	2473338	1276626	1196712	2988976	2800602	1883774	1758251	1474422	283829
West Bengal	3900505	1577267	2323238	4267470	2282855	1984615	3770428	3168035	602393	2530083	1622097	907986
Total	896064	4799835	4186229	15431010	8290447	7140563	16577576	15125824	1451752	10739272	7842854	2896418
Percentage completion		53.4			53.7			91.2			73.0	

Appendix 11

(Reference Para 1.21.9)

Position of summary assessments in selected charges

Charge	2001			2001-02			2002-03			2003-04		
	Due	Completed	Balance	Due	Completed	Balance	Due	Completed	Balance	Due	Completed	Balance
Delhi	38553	34561	3992	8215	5083	3132	34409	17267	17142	27676	15957	1719
Maharashtra	13196	9932	3264	31745	23385	8360	69259	28389	40870	75666	42876	32790
Tamil Nadu	20712	12544	8168	15778	7688	8090	24799	9423	15376	31878	15800	16078
West Bengal	26806	16058	10748	24484	15355	9129	28558	10412	18146	42117	16189	25928
Total	99267	73095	26172	80222	51511	28711	157025	65491	91534	177337	90822	76515
Percentage completion		73.6			64.2			41.7			51.2	

Appendix 12
Position of Appeals at CIT (A) level
(Reference Para 1.25.4)

Year	Total for disposal	Disposed off	Balance	Addition during the year CIT/ DCIT(A)*	Scrutiny asst. completed	Addition as a percentage of scrutiny asst. completed during the year (Col.5/ Col. 6* 100)	Addition to ITAT appeals/writs/ ref. during the year	Addition to ITAT appeals/writs/ ref. as a percentage of disposal by CIT (A) (Col. 8/Col. 3* 100)	Number of CIT(A)	Average disposal per CIT(A) per month	Number of months required to clear the balance at current rate
1	2	3	4	5	6	7	8	9	10	11	12
1991-92	388404	141955	246449		306495						
1992-93	363400	141034	222366	116951	285867	40.91					
1993-94	412421	145739	266682	190055	336894	56.41					
1994-95	405582	148010	257572	138900	298669	46.51	16986	11.48			
1995-96	367775	137039	230736	110203	301534	36.55	15480	11.30			
1996-97	330953	115640	215313	100217	366329	27.36	8017	6.93			
1997-98	296544	86536	210008	81231	920701	8.82	8213	9.49			
1998-99	298837	83841	214996	88829	201849	44.01	—4621	—5.51			
1999-2000	297225	107624	189601	82229	316223	26.00	6527	6.06	208	43.12	21.14
2000-01	270537	98568	171969	80936	225730	35.86	7052	7.15	207	39.68	20.94
2001-02	235763	79902	155861	63794	168010	37.97	14740	18.45	207	32.17	23.41
2002-03	219966	118743	101223	64105	172410	37.18	36435	30.68	289	34.24	10.23
2003-04	174298	92152	82146	73075	197390	37.02	33440	35.14	288	27.53	10.36

*Deputy Commissioner of Income Tax (Appeals) (DCIT) (A) was the first appellate authority till 1 October 1998, after which this post has been abolished and CIT (A) is the first appellate authority.

Appendix 13
(Reference Para 1.30.1)

Feed back from tax consultants

Name of the Tax consultant firm

Name of the person/s responding to the Questionnaire

Questions	Response
What is your overall perception of the organizational structure as it prevails now?	
Has the changed jurisdictions of charges stabilized and if not, what are the exact problems in locating charges of assessments?	
What are the problems faced at different levels by tax practitioners—	
Filing of returns	
Assessment level	
Where specifically do delays occur at the assessment level and rectification proceedings?	
What is the position of refunds after restructuring?	
Is there delay in issuing refunds to assessees ?	
Is there any problem in tracing the assessment records which result in delay of refunds?	
How is overall record management of the department?	
Where are problems in this area?	
What is the experience at 1st appellate stage with reference to the time taken for disposal?	
What is the experience at 2nd appellate stage with reference to time taken?	
Are the department's efforts to trace tax evaders adequate?	
Do many transactions generating income go unreported?	
If so, can some examples be quoted?	
What are your comments on decisions of outsourcing of certain areas of the department's work?	

Appendix 14

Analysis of Staff Investments for Compliance Functions (Reference Para 1.32.2)

Country	Total staffing (FTE's)	Total staffing: audit and other verification	
		No.	% of total
Australia	19,177	6,475	33.8
Canada	38,381	10,415 ²	27.1
France	75,046	16,666	22.2
Germany	122,278	—	—
Japan	56,315	38,110 ¹	67.7
Sweden	9,030	3,106	34.4
UK-IRD	66,674	16,704	25.1
USA	100,229	15,224	15.2
India—	61,093	14,668 ²	24.0

Source: Tax Administration in OECD Countries: Comparative Information Series (2004).

¹ Number includes an unknown level of staff time devoted to tax payer service functions.

² Includes staff for scrutiny as well as summary assessment functions in 2000-01. Source: Mishra Committee Report on 'Restructuring of the Income Tax Administration for increased effectiveness—a report, 1997-98'.

Appendix 15

Comparison of Year-end Gross and Net Tax Arrears (all years' debt) (Reference Para 1.33.3)

Country	Reported Gross tax arrears/ net tax collections (%)			Reported net tax arrears/ new tax collections (%)		
	2000	2001	2002	2000	2001	2002
Australia	6.4	8.5	9.3	3.2	5.6	6.5
Canada	7.3	7.5	8.4	5.8	5.9	6.8
France	15.9	15.7	16.1	—	—	—
Germany	2.5	2.6	2.6	1.4	1.4	1.5
Japan	5.2	4.6	4.9	—	—	—
Sweden	2.0	2.3	1.9	0.8	0.2	0.4
UK-IRD ¹	18.3	18.6	17.2	3.4	5.2	6.2
USA	13.9	14.7	16.1	3.4	3.6	4.4
India ² -	82.6	130.3	81.4	6.9	43.5	17.2
ITD	—	—	—	—	—	—

Source: Tax Administration in OECD Countries: Comparative Information Series (2004).

¹ Arrears data used for computation relate to aggregate receivables as end—October for each year indicated, compared with annual net revenue collections for fiscal year.

² Net arrears in India comprise gross arrears minus arrears not fallen due, amounts claimed to have been paid pending verification, amounts for which installment were granted and amount stayed/kept in abeyance. The figures have been taken from Audit Reports of Comptroller and Auditor General of India.

APPENDIX II

STATEMENT OF OBSERVATIONS AND RECOMMENDATIONS

Sl. No.	Para No.	Ministry/Department	Observations and Recommendations
1	2	3	4
1.	152	Finance (Revenue)	An exponential increase in volume of work in the Income Tax Department over the years had created manifold problems such as increase in tendency of income tax assessments, increase in arrears of taxes, increase in the number of tax payers per Commissioner of Income Tax (CIT), deterioration in span of control at other levels undermining efficiency and effectiveness, increase in average delay in issue of refunds resulting in huge outgo of interest and virtually inoperative existing manual system due to unprecedented growth in tax payers breeding inefficiency, harassment to tax payers and corruption. With a view to improving tax payer service and providing a user-friendly environment, the Central Board of Direct Taxes (CBDT) proposed to the Union Cabinet in July, 2000 a scheme for restructuring of the Income Tax Department.
2.	153	-do-	<p>The basis objectives behind the introduction of the scheme of restructuring were:</p> <p>(i) To improve the functional efficiency and effectiveness by rationalizing the structure, standardizing the work norms and induction of technology.</p> <p>(ii) To reduce cost of collection substantially below the cost in 1997-98 of 1.34%.</p> <p>(iii) To increase productivity per employee and quick disposal of first appeals by increasing the number of officers while rationalizing the span of control for better supervision, control and management of workload.</p>

1	2	3	4
			<p>(iv) Enhancing collection through bringing efficiency in assessment, issue of refunds post-assessment collection and disposal of appeals and improved services to tax payers.</p> <p>The proposal for restructuring of the Income Tax Department provided for a meaningful improvement in tax administration through full-scale induction of information technology. The proposal <i>inter alia</i> aimed to restructure the department while retraining, reorienting and redeploying its personnel. Specially, the productivity per employee was sought to be increased from 265 registered tax payers as on 1 April 1997 to 400 tax payers as on 1 April 2001, 600 as on 1 April 2004, 900 as on 1st April 2007 and 1350 on 1st April 2010. Thus, the same number of employees was expected to provide quality service to a much larger number of tax payers. However, the term 'productivity' and how to measure and verify the same was not defined or described in the proposal to the Cabinet even though it was proposed that internal work study norms for the long run would be recast based on cost of collection per registered tax payer and number of registered tax payers per employee. The restructuring proposal also stipulated the direct tax laws, rules and guidelines were to be amended or relaxed to give full effect to the proposals.</p>
3.	154	Finance (Revenue)	<p>The Cabinet approved the proposal of the Board on 31 August 2001 subject to the following conditions:—</p> <p>(i) An 'MOU' should be entered into between the Government and the Board in regard to increased revenue generation,</p> <p>(ii) In order to reduce public harassment and ensure accountability, specific steps needed to be taken to strengthen the vigilance and accounting machinery in the Board, and</p> <p>(iii) The re-deployed manpower needed to be fully trained in computer technology within a period of five years so as to improve the tax administration.</p>

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4.	155	Finance (Revenue)	<p>The Committee's examination of the subject is based on the Audit review of the functioning of nine field offices of the Income Tax Department. The Audit relied on the outcomes achieved during implementation of the scheme from 1999-2000 to 2003-2004 <i>i.e.</i> two years prior to and two years after the restructuring including the year of restructuring with reference to nine States <i>i.e.</i> Andhra Pradesh, Delhi, Gujarat, Karnataka, Madhya Pradesh, Maharashtra, Tamil Nadu, Uttar Pradesh and West Bengal where the scheme was under implementation. The purpose of the review was stated to ascertain the extent of achievement of promised immediate revenue gains, the status of fulfillment of conditions laid down by the Cabinet while according approval and the extent of improvement in efficiency after restructuring in areas such as assessments, issue of refunds, disposal of appeals, increased revenue generation, quality of assessments, effectiveness of anti-tax evasion measures, widening of tax base, number of tax payers serviced/handled, tax payers grievances and so on.</p> <p>Examination of the subject by the Committee in detail has revealed that the avowed objectives of the restructuring scheme have not been fully achieved. There have been significant deficiencies in the implementation of the scheme. The Committee have dealt with these deficiencies and various aspects of the restructuring of the Income Tax Department in the following paragraphs.</p>
5.	156	-do-	<p>The Committee are surprised to find that despite five years of approval of scheme of restructuring, MoU, as stipulated in the cabinet approval of the restructuring scheme, has not been entered between the Government and the CBDT. According to the Ministry, MoU not being entered into has not actually affected the performance of the Department. The Secretary (Revenue) declared in this regard that "It is not under active processing at present". It may not</p>

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			<p>be out of place to mention that insertion of this clause in the proposal approved by the Cabinet would not have been made without some rationale and significance. The contention of the Department now that the MoU not being entered into has not affected their performance is thus not tenable. The fact that such a MoU was not signed at the first instance is nothing but regrettable. It is incomprehensible as to how in the absence of such a MoU, the Government monitored and committed the Income Tax Department with respect to the failures and achievements of restructuring, the fulfillment of targets and the overall accomplishment of goals particularly the revenue outcomes. Considering the fact that the restructuring of Income Tax Department is a huge task involving infusion of funds, technology and legislative/administrative changes, the Committee believes it is extremely important that the CBDT, which is the implementing agency of the restructuring scheme, is able to secure the requisite approvals and assistance from the Government. The Committee, therefore, are of the opinion that the CBDT may consider the feasibility of entering into a MoU, even at this stage, in order to accomplish the unfinished task of restructuring.</p>
6.	157	Finance (Revenue)	<p>The Committee have been given to understand that the collection of Direct Tax revenue had increased from Rs.69, 198 crore in 2001-02 to Rs.1,05,088 crore in 2003-04 and Rs.131,918 crore in 2004-05, which witnessed an increase of Rs.63,613 crore over a period of three years after restructuring of the Department. However, analysis of collections during this period revealed that pre-assessment collections as a percentage of total collection rose from 79.46 per cent to 85.33 per cent, whereas post-assessment collections declined from 20.54 to 14.67 per cent during the same period. This has happened despite increase in the number of assessing officers from 1672 to 8111 after</p>

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			<p>restructuring. According to the Ministry, the pre-assessment collections are directly related to various efforts made by the Department and cumulative impact of the work done in the area of investigation, assessment, recovery, prosecution, tax payers service etc. The Committee, however, find that the Department did not maintain any data or conduct any study to correlate tax collections to the specific competencies/efficiency achieved in assessment and collection functions consequent to the implementations of the scheme of restructuring. In the absence of such a supportive data, the Committee are unable to be convinced that the growth in pre-assessment collections was an outcome of the restructuring process. Further, the Committee believe that the efforts required in the pre-assessment collections are not of the same degree as those in post-assessment collections. The Committee are, thus, inclined to conclude that the main contributory reasons for the growth in income tax collection during the post-restructuring period may well be factors such as increase in GDP, better economic conditions, reduced tax rates and inflation rather than the measures outlined in the restructuring scheme as such. The Committee, therefore, desire that the increase in tax collections registered during initial three years of restructuring, that is 2001-02, to 2003-04 and the cost of collection of tax during this period may be critically analyzed in this perspective after suitably factoring in the substantial amount of pre-assessment collections so as to arrive at a more transparent, precise and objective benchmark to assess the revenue outcomes of restructuring. The Committee would also like to be apprised about the latest revenue trends distinguishing between pre-assessment and post-assessment tax collections.</p>
7.	158	Finance (Revenue)	<p>Another disquieting trend observed by the Committee is the declining number of scrutiny assessments completed in a year after restructuring. As per the Mishra Committee Report (1998) (in-house study undertaken by Department) a total of 6 lakh scrutiny</p>

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			<p>assessments should have been possible to the completed in a year with the increased number of assessing officers that would be available after restructuring. However, the Committee observe that the number of scrutiny assessments completed each year after restructuring (2001-02 to 2003-04) was below 2 lakh. Further, The percentage of scrutiny assessments completed in a year as a percentage of total assessments due declined to 0.72 per cent after restructuring in 2003-04 from 3.81 percent in 1991-92, even though the number of assessing officers and supervising officers had increased from 6172 during pre-restructuring period to 8111 after restructuring.</p>
			<p>The Committee thus find that there was a considerable difference in the target fixed by the Mishra Committee for scrutiny assessment and the total number of cases actually completed through scrutiny assessments during each year after restructuring. The Committee would like to apprise as to how the Board justified selection of a smaller number of cases for scrutiny assessments when the Mishra Committee Report, on the basis of which the proposal of restructuring was formulated, had fixed a target of 6 lakh scrutiny assessments during the year. There is a need to re-evaluate their targets for scrutiny assessments so that a much larger number of cases are covered under scrutiny in the post-restructuring phase.</p>
			<p>As regards the decline in the number of cases selected for scrutiny, the Ministry have stated that instead of large number of low-revenue potential cases being earlier picked for scrutiny, comparatively higher number of large potential cases are now selected for scrutiny with the emphasis shifting to "quality" instead of "quantity" assessments. However, while according approval of the "scheme of restructuring", Cabinet had laid emphasis both on the number as well as quality of scrutiny assessments. Thus, the Ministry's plea in this regard is not acceptable. Furthermore, it cannot</p>

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			<p>be argued that there has been an improvement even in the quality of scrutiny assessments as the additions made to the number of appeals at CIT (Appeals) level as a percentage of number of scrutiny assessments completed during the year has increased after restructuring, thereby clearly indicating the low level of sustenance of "scrutiny assessments" post-restructuring. Further, the improvement or otherwise in the quality of scrutiny can be gauged not only by the number of appeals filed against the assessment orders but by the number of appeals decided in favour of the Department. The Committee would, therefor, like to be apprised of the year-wise details, post restructuring, of scrutiny assessments completed during the year, number of cases where appeals were filed and number of appeals decided in favour of the Department so as to enable the Committee to arrive at an objective conclusion as to the quality and efficacy of "scrutiny assessments" post-restructuring.</p>
8.	159	Finance (Revenue)	<p>The restructuring proposal made to the Union Cabinet had in fact promised an estimated 200 per cent increase in 'productivity' of assessing officers in terms of the number of scrutiny assessments completed. The Mishra Committee Report had also envisaged that the Additional/ Joint Commissioners would be expected to do 25 scrutiny assessments per year and the Deputy/ Assistant Commissioner and ITOs would be expected to do 125 and 160 scrutiny assessments per year respectively. The Committee, however, note that the average number of scrutiny assessments completed by each assessing officer at all India level during the years 1999-2000 to 2003-2004 has declined from 82.31 per assessing officer in 1999-2000 (pre-restructuring) to 44.50 per assessing officer in 2003-04 and marginally increased to 48.42 in 2004-05. It remained stagnant around 38 per assessing officer during 2001-02 and 2002-03 and improved slightly in 2003-04 and 2004-05,</p>

but was still far below the pre-restructuring level. The Ministry of Finance (Department of Revenue) have contended that productivity, as laid down in the proposal to the Cabinet has increased because the number of assesses had increased rapidly. Besides, they have asserted that the increase in productivity may be seen from the substantial decrease in cost of collection and increase in the growth of the tax as a ratio of the GDP and employee per capita collections. The Committee consider that all the above productivity indices are based merely on the overall and general increase in revenue collections of the Department during the post-restructuring period. There could be other generic factors like Government policies, inflation, reduced tax rates etc. which could have resulted in increase in tax collections. The Committee thus believe that productivity per employee can be more accurately measured only in terms of specific functions like the number of scrutiny assessments completed by an assessing officer in a year, which only can serve as an objective index of the efforts made by the income tax officials to enhance departmental performance as per the restructuring plan.

The Committee would also like to point out that a large number of assessing officers did not appear to have been gainfully utilised for completing more scrutiny assessments, subsequent to restructuring. In the selected field offices, average productivity per assessing officer was nowhere close to the figures indicated in the proposal for restructuring based on Mishra Committee Report. The Ministry of Finance (Department of Revenue) have stated that no targets for assessing officers have been prescribed in the post restructuring period. The Ministry have conceded that in the post-restructuring period, although the Board has been issuing comprehensive guidelines for selection of cases for scrutiny, total number of cases that should be selected has not been

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			<p>prescribed. The criteria for selection of cases for scrutiny laid down by the Board, however, allow the assessing officers with the approval of their CCsIT/CsIT to select more potential cases for scrutiny. The Committee would now like to be apprised about the enhanced number of cases selected for scrutiny by the assessing officers every year exercising those powers and the quantum of enhanced revenue that accrued to the Department there from each year.</p> <p>The Committee are concerned to note that even the small number of assessment cases selected for scrutiny each year after re-structuring were not completed in time. The number of assessments pending completion had increased from about one lakh cases in 2000-01 to about 1.77 lakh cases in 2003-04 in some of the charges such as Delhi, Maharashtra, Tamil Nadu and West Bengal. The completion of scrutiny assessments had thus decreased from 73.6% to 51.2% during this period. Non-fixation of pre-determined targets of disposal and lack of time-frame seemed to have had a dampening effect on the handling and eventual disposal of "Scrutiny assessment" cases. The Committee therefore, recommend that targets should be fixed for scrutiny assessments for each assessing officer and these should be finalised and completed within a stipulated time-frame. Considering the importance of judicious selection of cases for scrutiny assessments and their prompt disposal for the success of the restructuring scheme, it is imperative that the Department pays serious attention to this key area of their work.</p>
9.	160	Finance (Revenue)	<p>Another objective of restructuring was to bring about improvement in the revenue collection through search and seizure cases. The Committee note that the total number of Search and Seizure cases disposed off during the year had declined from 11.11 per cent in 1999-2000 to 0.96 per cent in 2003-04. Out of the total cases disposed off, only 10.43 per cent of cases</p>

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resulted in convictions in 2003-04. The proportion of acquittals or compounding was around 90 percent or more in all the years under consideration. The Committee are thus, inclined to conclude that the position in regard to Search and Seizures with reference to prosecutions launched, convictions obtained, offences compounded and acquittals allowed has, therefore, not changed for the better after restructuring of the Income Tax Department. What has surprised the Committee more is the fact that the details of final revenue collection from "Search and Seizure" cases were not maintained by the Department and they also did not maintain consolidated statistics of detection of concealment of income and their recovery through search and seizure operations, a fact which has conceded by them. The Committee are dismayed that the Department did not have and mechanism at all assess, monitor and enhance the efficiency of "Search and Seizure" operations, which would be a very important instrument of deterrence against tax evaders. The Committee desire that the Ministry should set up a coherent mechanism atleast now to monitor these operations particularly with a view to ascertaining the sustenance of assessments made in respect of "Search and Seizure" cases.

The Committee feel that there are still a considerable number of people in business/industry/professions who inspite of earning income which may be liable to be taxed, are not paying the requisite income tax. Since the searches and surveys carried out by Income Tax Department would possibly result in addition of assesses and tax revenue to the Government, the Committee feel that the investigation wing of the Department should be strengthened and made more effective for this purpose. In this connection, the Committee would, however, like to emphasize that "Search and Seizure" operations should not result in "harassment" of genuine tax-payers and that these operations should be backed by proper intelligence feedback. Enforcement operations such as these,

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			<p>apart from being a measure of deterrence, for tax evaders, should also instil faith on the integrity of the system in the minds of the honest tax payers.</p>
10.	161	Finance (Revenue)	<p>One of the benefits which were intended to accrue out of restructuring was the reduction in the uncollected demands. However, this objective also does not seem to have been achieved. This is evident from the fact that percentage of uncollected demand had gone up to 56.79 in the year of restructuring of the Income Tax Department <i>i.e.</i> 2001-2002 from 45.55 in 2000-2001. In 2002-2003 and 2003-2004, it came back to pre-restructuring level of about 45 per cent. The Ministry have stated that there have been improvements in cash collection out of arrear demands and current demands after restructuring but this increase is only in absolute terms. In percentage terms, 70 per cent of total demand remained uncollected in 2004-2005. As regards higher percentage of uncollected demands in the selected field offices, the Secretary (Revenue) explained during evidence that there were certain scam cases where it was not possible to collect huge demands and there were exparte orders issued where the attending officer did not get a change to examine all the relevant documents and the seized assets were inadequate to meet the demands. The Committee find that all the reasons advanced for the increase in uncollected demands are all normal in nature and could well have been foreseen by the Department and a viable strategy planned to maximise the recoveries. The Committee have now been informed in this regard that a Task Force on Recovery has been constituted in the Ministry in 2004 to monitor this aspect. In addition, in the Central Action Plan for 2005-06, separate recovery targets have been assigned to each cadre-controlling CCIT. The Committee hope that the Ministry will closely monitor the achievement of these recovery targets in a time-bound manner. The Committee</p>

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			strongly feel that the Government needs to proceed in this matter on a war footing by taking recourse to whatever administrative, enforcement or legislative measures that are warranted to mop up the arrears of "uncollected demands". The Committee would like to be apprised on this matter in due course.
11.	162	Finance (Revenue)	<p>One of the benefits promised in the proposal of restructuring was immediate additional revenue gain of Rs. 7500 crore by increasing the number of first appellate authorities. The Board had fixed 60 units per month disposal norm for each CIT (Appeals), which was increased to 75 units per month from June 2004. The Committee are however, constrained to point out that despite an increase in the number of posts of CIT (Appeals) from 207 to 288 after restructuring, the number of appeals disposed off during the year has marginally declined from 1.08 lakh in 1999-2000 in the pre-restructuring phase to 0.95 lakh in 2003-04 in the post-restructuring period. In fact, the average number of appeals disposed off by each CIT (Appeals) in a month during 1999-2000 was 43.12, which came down to 27.53 during 2003-04, thus clearly showing a down-trend of work-disposal during the post-restructuring period. Adding to this was the increase in the number of appeals at CIT (Appeal) level during the year as a percentage of scrutiny assessments completed. This increased from 26 percent in 1999-2000 to 37.02 percent in 2003-04, implying that the proportion of scrutiny assessments with which the assesses were dissatisfied was also correspondingly increasing during this period. The addition to appeals/writs/references at the ITAT level during the year as a proportion of number of cases disposed off by CIT (A) during that year also increased steadily from 6.06 per cent in 1999-2000 to 35.14 per cent in 2003-04, suggesting again that there was an increase as well in proportion of dissatisfied assesses whose appeals were disposed off by CIT (Appeals).</p>

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			<p>The Committee regret to observe that the Department did not maintain any statistics in respect of revenue involved in appeals filed, disposed off and balance pending. While conceding that there were still some appeals pending for more than one year, the Revenue Secretary informed the Committee that the effort was to dispose those appeals within six months, and particularly in respect of high demand appeals, the CIT (Appeals) have been instructed not to keep such appeals pending for more than six months and their performance was being closely monitored by the supervisory CCITs. Notwithstanding certain steps taken by the Department, the Committee feel that the disposal of income tax appeals particularly at the first stage is still far from satisfactory, considering the benefits which were proposed to accrue as a result of the restructuring plan. The Committee, therefore, desire that the matter may be looked into so as to identify the specific reasons of pendency of appeals and to suggest ways and means of early disposal including augmenting the strength of the CITs and fixing monthly targets of disposal. The action taken in this regard may be reported to the Committee at the earliest.</p>
12.	163	Finance (Revenue)	<p>It was envisaged in the restructuring proposal submitted to the cabinet that there would be an immediate saving of Rs. 3.05 crore on account of manpower restructuring. Accordingly, no additional expenditure was provided under this head. However, post-restructuring, it was noticed that in 43 CIT charges alone, a sum of Rs. 4.25 crore was incurred on outsourcing of work relating to processing of income tax returns, allotment of PAN, dispatch of refund orders and Tax Accounting System (TAS) that was attributable to restructuring and post restructuring work. It is thus evident that the Department had got their estimates wrong while formulating the restructuring proposal. Although Rs. 3.05 crore was intended to be saved in the</p>

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13.	164	Finance (Revenue)	<p>immediate aftermath of restructuring, the Government, on the contrary incurred Rs. 4.25 crore on outsourcing of elementary income tax operations. The Committee are, therefore, inclined to suggest that the existing budgeting and management systems in the Department require to be spruced up to achieve results commensurate with the objectives.</p> <p>As per the proposal of restructuring, the interest burden on account of refunds was expected to come down by Rs. 350 crore per annum with reduction in average time taken in issue of refunds. The Mishra Committee had predicted that after restructuring, the average delay in issue of refunds would be reduced to four months. However, the Committee note that from an average delay of about 8 months in payment of refunds in 1996-97, it increased to 10.36 months in 1999-2000 and further to 27.36 months in 2003-04. Thus, neither the amount of interest paid nor the average delay in payment of refund has decreased as promised in the proposal for restructuring. The Committee find it surprising that details of interest paid on refunds, and the details of number of cases where refund was paid on indemnity bond are also not being maintained by the Department and thus, could not be made available to the Committee. Although, the Ministry of Finance (Department of Revenue) have now stated to have issued instructions for all the returns of income to be processed within four months of being filed and the resultant refunds to be issued within a month of processing. In the opinion of the Committee, mere issuing of instructions in a routine manner will be a futile exercise unless they are effectively followed-up and their compliance strictly monitored. The Committee, therefore, desire that the Ministry should by all means ensure scrupulous compliance of their instructions and ensure that the field formations issue refunds methodically and within the prescribed time limit. The Committee would like</p>

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			to be apprised about the latest position in regard to the average delay in payment of refunds and the quantum of interest paid on account of delays.
14.	165	Finance (Revenue)	<p>The restructuring proposal envisaged that there was to be downsizing of income tax bureaucracy by 4.75 percent. While doing so, stagnation was also expected to be reduced at all levels, to improve employee morale while preparing the Department for induction of technology. With this in view, during the course of restructuring, various posts in the Department were created/abolished and post-restructuring, there was an overall net decrease of 2,755 posts in the staff strength of the Department. The Committee, however, note that in Andhra Pradesh, Delhi, Gujarat, Karnataka, Maharashtra, Madhya Pradesh, Tamil Nadu, Uttar Pradesh and West Bengal Charges, besides the reduction in the sanctioned strength, the posts sanctioned from Inspector and below numbering as many as 3750 also remained unfilled as on 1st April, 2003. The Committee are rather concerned about such a large number of vacant posts in the Department remaining unfilled. Considering the adverse impact such large number of unfilled posts may have on enforcement duties, the Committee recommend that early action should be taken by the Ministry to fulfil the personnel requirements at all the levels so that departmental work does not suffer due to shortage of personnel, particularly keeping in view the expanded workload in the post-restructuring phase. Vacancies at all levels therefore, need to be filled immediately by timely promotions and recruitment at appropriate levels.</p>
15.	166	-do-	<p>The Committee find that as part of restructuring, the existing system of internal audit was replaced by a new chain system of internal audit in the field offices of the Income Tax Department, ostensibly with a view to strengthening the internal check of assessments and refunds involving personnel from all assessment circles.</p>

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			<p>Prior to restructuring, 150 audit parties (both Internal and special Audit Parties), consisting around 500 designated officials were entrusted with the exclusive responsibility for internal audit and each party was required to audit around 110 cases every month. After restructuring, 4626 officials, drawn from all ranges and assessing offices, were to be involved for the purpose. Audit scrutiny, however, has revealed that although, the number of cases audited internally had increased in absolute terms during the post-restructuring period, the percentage of shortfall with reference to total auditable cases had increased under the new system of Internal Audit after restructuring as compared to the pre-restructuring period. Obviously, the objective of strengthening the Internal Audit Systems could not thus be achieved. The Ministry have also conceded that the structure of the chain system of internal audit has hindered its functionality and required certain modifications in order to ensure internal audit of the target group of assessments. A proposal in this regard has stated to have been formulated for consideration by the Board. The Committee hope the proposal for revamping the Internal Audit System would be finalised and implemented without any further delay. They would like to emphasise that Internal Audit, being an important tool of management control, it is imperative that this instrument is judiciously used to exercise effective control over income tax operations and for checking leakage of tax revenue, and also enable it to act as a built-in mechanism to gauge the results achieved out of restructuring in the Department <i>vis-a-vis</i> the expected outcomes.</p>
16.	167	Finance (Revenue)	<p>Consequent to restructuring, the Income Tax Department was expected to be well placed to deal with key areas of non-compliance. Thus, in turn, was to have led to an 'immediate' impact on tax revenues. Additional revenue amounting to Rs. 6000 crore was estimated to accrue from the impact on revenues from disposal of pending</p>

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			<p>assessments. Further, increase in the number of first appellate authorities and Tax Recovery Officers (TROs) were expected to contribute an estimated Rs. 7500 crore to the revenues. Interest burden on refunds was also projected to come down by Rs. 350 crore per annum with early issue of refunds. The long run impact by way of tax buoyancy during the post-restructuring period was expected to be even much more than the estimates mentioned above. The Committee's examination of the subject reveal that the tax revenue estimated to accrue during the post-restructuring period did not actually materialise. The results expected in key areas of income tax operations namely assessments, appeals, refunds etc. also proved elusive. Instead, whatever increase in overall tax collections that was registered during the post restructuring phase was evidently less due to the implementation of the restructuring scheme as such and was attributable more to factors extraneous to the restructuring process. The Committee, therefore, desire that the Income Tax Department needs to look into the matter with a view to identifying the reasons as to why the requisite contribution to revenue could not materialize.</p>
17.	168	Finance (Revenue)	<p>With a view to facilitating and improving taxpayers services, it has always been the endeavor of the Government to evolve simplified procedures and forms for filing income tax returns. However, the Committee understand that the Government now propose to revise the existing 'saral' form into a detailed one which requires filling up of a number of detailed information/particulars. What is more surprising is that even the salaried class including the pensioners are proposed to be included within the ambit of this detailed form. The intention behind rolling out this new detailed form is purported to be marking and trailing tax evasion by locating the mismatch in income and expenditure of individuals. The Committee, however, believe that converting and expanding</p>

the format and scope of the existing popular 'saral' return form into a complicated and detailed form may not achieve the stated objectives, as the 'saral' form, evolved over a period of time as a result of the continuing process of simplification and rationalization, had not only become popular but also widely acceptable. The Committee apprehend that the proposed detailed form may discourage people from filing their returns, thereby defeating the very purpose of the revision made. The modification of the 'saral' form initiated by the Government would therefore only result in reversing the processes initiated by the Department over the years in simplifying tax procedures, in providing a taxpayer friendly environment and bringing more taxpayers under the income tax net. The Committee desire that the Government must review their decision in this matter so that the process of simplification and rationalization of tax procedure is not reversed. The Committee would like to emphasize that the filing of Income tax returns should be made as simple as possible so that more and more people are encouraged to file their income tax returns and no harassment is caused to taxpayers due to the complicated nature of the forms.

At the scope and incidence of tax avoidance or evasion is minimal among the salaried class and pensioners, the Committee are of the considered view that the Government must particularly endeavour not to cause any hardship or harassment to the taxpayers under these categories. The Committee would like to take this opportunity to clearly emphasize that the efforts of the Income Tax Department ought to be specifically directed and precisely focused on only those categories/classes that are fundamentally evasion-prone due to the nature of their activities or vocations. Instead of dispersing their precious energy and resources, the Income Tax Department may henceforth, as a part of their restructuring,

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18.	169	Finance (Revenue)	<p>re-orient their efforts in a direction that is more purposeful and fruitful.</p> <p>In the light of the various shortcomings and pitfalls that have come to the fore in the implementation of the scheme of restructuring of the Income Tax Department, the Committee recommend that the Ministry should immediately address the areas of concern squarely, while making its internal controls and monitoring mechanism stronger, purposeful and more effective, enabling them to have a more realistic and accurate assessment of the improvements in efficiency achieved through restructuring. Broadly, the following steps may be taken for a better evaluation of the restructuring process:</p> <ul style="list-style-type: none"> (i) Efforts need to be made to bring about efficiency, productivity and methodology of ascertaining revenue gains as mentioned in the proposal to the Union Cabinet and to ensure proper mechanism for monitoring and assessing the performance of the department in a transparent and verifiable manner; (ii) There should be faster disposal of pending cases, quicker disposal of appeals and reduction in delay in issue of refunds; (iii) The IT system of the Department should generate a specific set of information which would help effectively in monitoring areas of improvement as visualized in restructuring proposals; (iv) The system of internal audit may be periodically reviewed to ensure compliance with targets. <p>The Committee would like to be apprised within six months about the concrete steps taken in this regard.</p>

PART II

MINUTES OF THE SEVENTH SITTING OF THE PUBLIC ACCOUNTS COMMITTEE (2005-2006) HELD ON 15 JULY, 2005

The Committee sat from 1100 hrs. to 1250 hrs. on 15 July, 2005 in Room No. "139", Parliament House Annexe, New Delhi.

PRESENT

Prof. Vijay Kumar Malhotra—*Chairman*

MEMBERS

Lok Sabha

2. Shri Ramesh Bais
3. Dr. M. Jagannath
4. Shri Brajesh Pathak
5. Shri Madan Lal Sharma
6. Shri Brijbhushan Sharan Singh
7. Dr. Ramlakhan Singh
8. Kunwar Rewati Raman Singh
9. Shri Tarit Baran Topdar

Rajya Sabha

10. Shri Prasanta Chatterjee
11. Shri R.K. Dhawan
12. Dr. K. Malaisamy
13. Shri C. Ramachandraiah
14. Prof. R.B.S. Verma

SECRETARIAT

- | | | |
|------------------------|---|------------------------|
| 1. Shri Ashok Sarin | — | <i>Director</i> |
| 2. Smt. Anita B. Panda | — | <i>Under Secretary</i> |

Officers of the office of the Comptroller and Auditor General of India

- | | | |
|-------------------------|---|---------------------------------|
| 1. Shri V.N. Kaul | — | Comptroller and Auditor-General |
| 2. Ms. Mohua Chatterjee | — | ADAI |

3. Smt. Sudha Krishnan — Pr. Director (Direct Taxes)
 4. Shri P. Sesh Kumar — Pr. Director (RC)

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

1. Shri K.M. Chandrasekhar — Secretary (Revenue)
 2. Shri Berjinder Singh — Chairman (CBDT)
 3. Shri Sudhakar Mishra — Member (A&J)
 4. Shri M.S. Darda — Member (P)
 5. Shri J.G. Pendse — Member (Investigation)
 6. Shri K. Rangabhashyam — Member (R)
 7. Shri Shibaji Dash — Member (IT)
 8. Smt. M.H. Kherawala — Member (L)

2. At the outset, the Chairman, Public Accounts Committee welcomed the members of the Committee and Audit Officials. The Committee then took up for consideration the following two draft reports:—

- (i) *** *** ***
 (ii) *** *** ***
 3. *** *** ***
 4. *** *** ***

5. Thereafter officers from the Office of the C&AG of India briefed the Committee on specific points arising out of Chapter-I of Audit Report No. 13 of 2005 (Direct Taxes) relating to "Status of improvement of efficiency through the 'restructuring' of the Income Tax Department". The representatives of the Ministry of Finance (Department of Revenue) and the Central Board of Direct Taxes were then called and the Committee took their oral evidence on the subject. The Secretary, Ministry of Finance (Department of Revenue) replied to the various points and queries raised by the Members. The Chairman directed the representatives of the Ministry of Finance (Department of Revenue) to furnish replies on the points raised by the Members of the Committee for which information was not readily available with them.

6. A copy of the verbatim proceedings of the sitting has been kept on record.

The Committee then adjourned.

MINUTES OF THE SIXTH SITTING OF THE PUBLIC ACCOUNTS
COMMITTEE (2006-2007) HELD ON 20TH JULY, 2006

The Committee sat from 1100 to 1215 hours in Committee Room 'D', Parliament House Annexe, New Delhi.

PRESENT

Prof. Vijay Kumar Malhotra — *Chairman*

MEMBERS

Lok Sabha

2. Shri Khagen Das
3. Shri P.S. Gadhavi
4. Shri Raghunath Jha
5. Shri Brajesh Pathak
6. Shri Madan Lal Sharma
7. Shri Mohan Singh
8. Shri Kharbela Swain
9. Shri K.V. Thangkabalu
10. Shri Tarit Baran Topdar

Rajya Sabha

11. Shri V. Narayanasamy
12. Shri R.K. Dhawan
13. Shri Prashanta Chatterjee

SECRETARIAT

1. Shri A. Mukhopadhyay — *Joint Secretary*
2. Shri Ashok Sarin — *Director*
3. Shri M.K. Madhusudhan — *Under Secretary*

Representatives of the Office of the Comptroller and Auditor General of India

1. Shri B.K. Chattopadhyaya — Additional Deputy C&AG
2. Dr. A.K. Banerjee — Director General of Audit (CR)
3. Shri R. N. Ghose — Principal Director (AB)

4. Shri P. Shesh Kumar — Principal Director (RC)
 5. Mrs. Sudha Krishnan — Principal Director (Direct Taxes)

Representatives of the Ministry of Information & Broadcasting

1. Shri S.K. Arora — Secretary
 2. Shri Raghu Menon — Additional Secretary & Financial Advisor

Representatives of the Prasar Bharati

1. Shri Navin Kumar — Chief Executive Officer
 2. Shri Sanjeev Datta — ADG(A)

2. At the outset, the Chairman, PAC welcomed the Members and Audit Officers to the sitting of the Committee. The Committee then took up for consideration of the following draft Reports and adopted the same without any modifications/amendments:

(i) *** **

(ii) Draft Report on Chapter-I of C&AG's Report No. 13 of 2005 for the year ended March, 2004, Union Government, (Direct Taxes-System Appraisals) on **“Status of improvement of efficiency through the 'Restructuring' of the Income Tax Department.”**

(iii) *** **

The Committee authorised the Chairman, to finalise these draft Reports in the light of changes suggested by Audit through factual verifications, if any, or otherwise and to present the same to the Parliament.

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

The Committee then adjourned.