

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

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

**PUBLIC ACCOUNTS  
COMMITTEE  
2006-2007**

**FORTY-SEVENTH REPORT**

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**FOURTEENTH LOK SABHA**



**LOK SABHA SECRETARIAT  
NEW DELHI**

FORTY-SEVENTH REPORT

PUBLIC ACCOUNTS COMMITTEE  
(2006-2007)

(FOURTEENTH LOK SABHA)

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

[Action Taken on 29th Report of Public Accounts Committee (14th Lok Sabha)]

MINISTRY OF FINANCE  
(DEPARTMENT OF REVENUE)

*Presented to Lok Sabha on 27-04-2007*  
*Laid in Rajya Sabha on 27-04-2007*



LOK SABHA SECRETARIAT  
NEW DELHI

*April, 2007/Chaitra, 1929 (Saka)*

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## CONTENTS

	PAGE
COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE (2006–2007) .....	(iii)
INTRODUCTION .....	(v)
CHAPTER I Report .....	1
CHAPTER II Observations/Recommendations that have been accepted by Government .....	10
CHAPTER III Observations/Recommendations which the Committee do not desire to pursue in view of the replies received from Government .....	33
CHAPTER IV Observations/Recommendations replies to which have not been accepted by the Committee and which require reiteration .....	52
CHAPTER V Observations/Recommendations in respect of which Government have furnished interim replies/no replies	57
PART II	
Minutes of the sitting of Public Accounts Committee (2006-07) held on 19.04.2007. ....	58
APPENDIX	
Statement of Observations and Recommendations .....	61

COMPOSITION OF THE PUBLIC ACCOUNTS COMMITTEE  
(2006-2007)

Prof. Vijay Kumar Malhotra — *Chairman*

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| 5. Smt. Anju Kukreja            | — | <i>Committee Officer</i>    |

## INTRODUCTION

I, the Chairman, Public Accounts Committee, as authorised by the Committee, do present this Forty-seventh Report on action taken by Government on the recommendations of the Public Accounts Committee contained in their 29th Report (14th Lok Sabha) on “Status of improvement of efficiency through the ‘Restructuring’ of the Income Tax Department”.

2. This Report was considered and adopted by the Public Accounts Committee at their sitting held on 19th April, 2007. Minutes of the sitting form Part II of the Report.

3. 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.

4. 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.

5. The Committee also place on record their appreciation for the invaluable assistance rendered to them by the officials of Lok Sabha Secretariat attached with the Committee.

NEW DELHI;  
19 April, 2007  

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29 Chaitra, 1929 (Saka)

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

## CHAPTER I

### REPORT

This Report of the Committee deals with the action taken by the Government on the Observations/Recommendations of the Committee contained in their Twenty-Ninth Report (14th Lok Sabha) on Chapter-I of 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) relating to "Status of improvement of efficiency through the 'Restructuring' of the Income Tax Department".

2. The Twenty-Ninth Report which was presented to Lok Sabha on 11 August, 2006 contained 18 Observations/Recommendations. The Action Taken Notes in respect of all the Observations/Recommendations have been received from the Ministry of Finance (Department of Revenue) and are broadly categorized as follows:—

(i) Recommendations/Observations which have been accepted by the Government:

Sl. Nos. 1 to 4, 6, 10 to 15 and 18

(ii) Recommendations and Observations which the Committee do not desire to pursue in the light of replies received from Government:

Sl. Nos. 5,8,9 and 16

(iii) Recommendations and Observations replies to which have not been accepted by the Committee and which require reiteration:

Sl. Nos. 7 and 17

(iv) Recommendations and Observations in respect of which Government have furnished interim replies:

-NIL-

3. The Action Taken Notes furnished by the Ministry on the various Observations/Recommendations of the Committee contained in the Report have been reproduced in the relevant Chapters of this Report. In the succeeding paragraphs, the Committee deals with the action taken by the Government on some of their Recommendations.

#### **A. Status of improvement of efficiency through the 'Restructuring' of the Income Tax Department — A Gist of Committee's Observations/Recommendations.**

4. The Committee's 29th Report on the subject was based on the Audit Review of the scheme for Restructuring of the Income Tax Department from 1999-2000 to 2003-04, *i.e.* two years prior to and two years after the restructuring including the year of

restructuring, in order to ascertain the extent of achievement of promised immediate revenue gains, the status of fulfilment of conditions laid down by the Government 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 service/handled, tax payers grievances etc.

5. The Committee's examination of the subject had revealed that the main objectives of the restructuring scheme had not been fully achieved. There had been significant deficiencies in the implementation of the scheme such as:—

- \* The rate of growth of post-assessment tax collection had declined from 20.54 percent to 14.67 percent after restructuring,
- \* The number of scrutiny assessments completed in a year after restructuring had also declined to 0.72 percent in 2003-04 from 3.81 percent in 1991-92,
- \* Even the small number of assessment cases selected for scrutiny each year after restructuring were not completed in time,
- \* The Ministry had not maintained details of recovery of tax, interest and penalty in respect of search and seizure operations,
- \* The average number of appeals disposed off by each CIT (Appeals) in a month had come down from 43.12 during 1999-2000 to 27.53 during 2003-04.
- \* Addition to the number of appeals at CIT (Appeals) 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 etc.

**B. Assessments—Insufficient data-base and monitoring  
(Recommendation Sl. No. 7—Paragraph No. 158)**

6. As per the Mishra Committee Report (1998) (in-house study undertaken by the Department of Revenue) a total of 6 lakh scrutiny assessments should have been possible to be completed in a year. However, the Committee had observed in their Report 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 percent 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. While observing 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 had asked the Ministry of Finance (Department of Revenue) to re-evaluate their targets for scrutiny assessments so that a much larger number of cases get covered under scrutiny in the post-restructuring phase.



Further, regarding improvement in quality of scrutiny assessment, the Committee has observed that 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, had therefore, desired 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.

7. The Ministry of Finance (Department of Revenue), in their Action Taken Note have stated as follows:—

"The procedure for selection of cases for scrutiny of cases has undergone major changes after restructuring. Selection of cases is made through the Computer Assisted Selection of Scrutiny Scheme (CASS) at the stations on AST network, and manually at other stations, on the basis of specified parameters laid down by the Board each year alongwith the Action Plan. As the selection of cases depends upon satisfaction of requisite criteria, the number of cases selected for scrutiny may vary each year. Efforts are, however, continuing to enlarge the scope of scrutiny assessments and cover a larger number of cases by modifications in the parameters for selection and use of Annual Information Return for selection of cases.

The data of scrutiny assessments completed during the year, number of cases where appeals were filed and number of appeals decided in favour of the Department in respect of the cases selected for scrutiny in the respective individual years is not maintained. Rather, the data of progressive scrutiny assessments completed, total number of appeals filed/pending and progressive number of appeals decided is maintained. The data of scrutiny assessments completed during the year and the appeals filed and disposed in respect of these scrutiny assessments can not be correlated on a case to case basis for every year. The Department's monthly statistics states the quantum of revenue locked up in appeals every year *vis-a-vis* the total demand raised during the year and the total demand outstanding at the end of the year. The data regarding assessments is also maintained in absolute terms and not on a case to case basis of scrutiny assessments completed in a particular year. Such data can be available once all assessments processes, including the processes in the appellate jurisdiction, are done on system in specified software. As such, it is not possible to provide these statistics,"

**8. The Committee note that in compliance to their recommendations for re-evaluation of targets of scrutiny assessments to ensure coverage of larger number of cases under scrutiny in the post-restructuring phase, the Government, have merely stated that efforts are being made to enlarge the scope of scrutiny assessments and to cover a larger number of cases by virtue of modifications in the parameters for selection. The Committee find this response of the Ministry**

rather tepid. As the earlier efforts made by the Ministry in this regard during the pre-restructuring era have not yielded the desired results, post restructuring, the Committee would expect the Ministry of Finance (Department of Revenue) to direct their efforts in a more focused manner so that the results achieved could be determinable and verifiable with reference to the targets set for the purpose and the laid down objectives. The Department should have systems in place to monitor the results of their efforts to ensure that larger number of cases get covered under scrutiny assessment, both quantitatively and qualitatively, commensurate with the increasing number of assessees and their growing incomes. The Committee would like to be apprised of the specific measures initiated in this regard and the corresponding results achieved as an outcome thereof.

Further, as regards the submission of year-wise details of scrutiny assessments completed during the year, number of cases where appeals were filed and number of appeals decided in favour of the Department, the Ministry have expressed their helplessness in providing these statistics, as the requisite data has not been maintained by them. According to them, such data can be made available only when all assessment processes, including the processes in the appellate jurisdiction, are done on system in a specified software. The Committee are surprised that the Ministry of Finance (Department of Revenue), even with such rapid advancements in information Technology, have not succeeded in making any headway in maintaining statistics crucial to their performance. The Committee expect the Department to take up this issue seriously and made earnest and vigorous efforts to complete the requisite data-base at the earliest and apprise them of the desired particulars.

**C. Position of appeals — Need for augmenting the manpower strength  
(Recommendation Sl. No. 11 — Paragraph No. 162)**

9. In their 29th Report on the subject, the Committee had pointed 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 had declined from 1.08 lakh in 1999-2000 in the pre-restructuring phase to 0.95 lakh in 2003-2004 in the post-restructuring period. In fact, the average monthly number of appeals disposed off by each CIT (Appeals) came down from 43.12 in 1999-2000 to 27.53 during 2003-2004. 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 the corresponding year also increased steadily from 6.06 per cent in 1999-2000 to 35.14 percent in 2003-2004. This again suggests that there was an increase as well in proportion of dissatisfied assessee whose appeals were disposed off by CIT (Appeals). Considering the benefits which were proposed to accrue as a result of the restructuring plan, the Committee had asked the Ministry of Finance (Department of Revenue) to identify the specific reasons of pendency of appeals and to suggest ways and means of early disposal including augmenting the strength of the CIT and fixing monthly targets of disposal.

10. In their Action Taken Note submitted to the Committee, the Ministry of Finance (Department of Revenue) have *inter-alia* informed as follows:—

- (a) The CBDT issues instructions from time to time for fixing the norm for disposal of appeals by the CsIT(A) in a month;
- (b) Administrative CcsIT monitor the performance of CsIT(A) under their control on a periodical basis to ensure expeditious disposal of cases;
- (c) The CsIT(A) having less pendency have been given concurrent jurisdiction with CsIT(A) having substantial pendency so as to expedite disposal of cases;
- (d) In an effort to minimize litigation, CBDT has issued instructions fixing monetary limits for filing of departmental appeals before the ITAT, High Court and the Supreme Court etc.;
- (e) Requests have been made to the President of the ITAT for early disposal of cases pending before various benches of the ITAT;
- (f) The monthly disposal target for each CIT(A) has been fixed at 60 units for different categories of appeals;
- (g) In the post-restructuring period, cases are largely being disposed in the year of institution itself.

**11. The Committee note with satisfaction that in pursuance of their recommendation, the Ministry have fixed monthly disposal target of appeals for each Commissioner of Income Tax (CIT) at sixty units. The Committee, however, desire that besides fixing monthly targets for disposal of appeals, the Ministry should also initiate steps for augmenting the manpower strength as recommended by them earlier, to cope with the increasing workload. In addition to this, the Ministry should also prescribe a time schedule for strict compliance to facilitate expeditious disposal of appeals. The Committee hope that these measures will be effectively implemented and constantly monitored by the Ministry/Department so that shortfalls, if any, in the outcomes can be promptly addressed.**

#### **D. Retention of 'Saral' form**

##### **(Recommendation Sl. No. 17—Paragraph No. 168)**

12. While disapproving of the Government decision to revise the existing 'Saral' form into a detailed one which required filling up of a number of detailed information/particulars, the Committee had desired, that the Government must review their decision in this matter and had emphasized that the form for filling of Income Tax returns should be made as simple as possible so that more and more people are encouraged to file their income tax return and no harassment is caused to taxpayers due to the complicated nature of the forms. Further, as the scope and incidence of tax avoidance or evasion is minimal among the salaried class and pensioners, the Committee had recommended that the Government must particularly endeavor not to cause any hardship or harassment to the taxpayers under these categories.

13. While furnishing their detailed justification for notifying a new Income Tax return Form No. 2F, the Ministry of Finance (Department of Revenue) in their Action Taken Note have stated as follows:

"Recognizing the need to simplify the tax returns, the Government in 1998, introduced a one page return Form No. 2D also known as 'Saral'. This Form was made applicable to all non-corporate taxpayers and it required them to furnish information relating to their income and tax liability in a summary manner. All underlying calculations relating to income and tax liability were required to be furnished as separate annexure which invariably ran into several pages.

Over time, it came to be recognized that the Saral Form requires the taxpayer to have a good knowledge of the tax law so as to do the underlying calculation correctly without any guidance. In May, 2003 the Government introduced a new one-page Form No. 2E (i.e. Naya Saral). This form can be used by salaried taxpayers not having business income, capital gains or agricultural income. Further this form also provide for underlying calculation of income from house property and other sources.

Since the space provided for filling out the details was inadequate, the new Form No. 2E also failed to serve its intended objective. Taxpayers continued to provide separate attachment in respect of computation of the income. The tax benefits available to taxpayers under the tax law were also not fully reflected in Form No, 2E. Further, for expeditious issue of refunds particularly to salaried class, the Government introduced a new system of directly crediting the refund to the taxpayers' bank account. A look at the Form No. 2E would show that there is very limited space for furnishing particulars of bank account. Accordingly, it was considered necessary to review the design of Form No. 2E so as to overcome these difficulties and also adapt the Form to the needs of computerization.

Accordingly, Government notified a new Income-tax return Form No. 2F on 1st June, 2006. However, to allow sufficient time to taxpayers for familiarizing with the the new Form No. 2F, the old Form No. 2E was allowed to continue up to 31.07.2006.

The new Form No. 2F is a four page expanded version of Form No. 2E (Naya Saral) providing sufficient space to fill out the details. No Annexure are required to be attached with it. All details of tax payment and TDS are captured on page four of the Form. It also provides work sheets by way of Schedules to enable taxpayers to fill out the columns even without knowledge of the tax law. Detailed instructions, wherever necessary, have also been provided for guidance and assistance so as to make it user-friendly. The new Form is also fully compatible with electronic filing.

Schedule 5 of the new Form relates to the cash-flow statement, wherein the taxpayer is required to furnish the lump sum amount relating to his inflow and outflow.

Even if a taxpayer chooses to file his return in Form No. 2 F, he still has the option of not filling out the cash-flow statement in Schedule 5. Later, cash flow statement has also been incorporated in Form No. 2 and Form No. 3. However, in these forms also, it is optional to fill out the cash flow statement.

In the recent past, the enforcement strategy of the Income-Tax Department has shifted from an intrusive investigation technique to the use of non-intrusive methods for developing a modern taxpayers' information system. One of the significant measures in the respect was the establishment of the taxpayer information network (TIN) in January 2004 to manage the growing volume of information and undertake extensive verification. This initiative received an impetus with the operationalisation of information collection through the Annual Information Returns (AIR) in December, 2004. Since then, the Department has received information of about 16,84,709 transaction involving Rs. 16,39,024 crore for the financial year 2005-06. This volume will further increase with the expansion in the scope of AIR. In order to increase the deterrence effect of enforcement, it is necessary to undertake verification of this information. Towards this objective, the Department had to issue a large number of letters to taxpayers. Such a verification exercise is not only tedious, the cost material and human would also substantially outweigh the benefits.

Accordingly, it was considered necessary to design a risk management strategy, which would maximize the benefits of such an exercise. It was, therefore, considered necessary to obtain essential information of annual inflows and outflows (cash flow statement) from the taxpayer. This will enable the Department to identify only such cases for intensive investigation where the probability of detection is extremely high. This will considerably reduce the compliance burden of taxpayers and also enhance the effectiveness of the tax administration leading to higher revenues.

A perusal of the Form would show that, unlike in other forms, most entries in Form No. 2F are cross-referenced to instructions or to worksheets (*i.e.*, Schedules). Therefore, filling out this new form should be a simple exercise.

Besides, it is to be mentioned that for small and marginal taxpayers, a return form serves as a source of information about the tax law. Therefore, it is necessary to design the form so as to create awareness amongst the taxpayers of their rights and obligations without imposing undue compliance burden. The new form intends to serve this objective.

The new form provides sufficient space and necessary worksheets. In fact, the information compressed in one page in Form No. 2E is now spread over two and three quarter pages. Similarly, page 4 of the new form substituted the various TDS certificates and other proofs required to be enclosed.

Further, for filling out the Cash Flow Statement, a taxpayer is not required to maintain detailed accounts of their inflow and outflow (expenditure). A perusal

of Schedule 5 seeking cash flow statement would show that a taxpayer is not required to fill out the details of each items of inflow or outflows. It requires him to fill out only the total of the amounts. Since the incomings during the year and the cash/bank balance both at the beginning and at the end of the year are known to all taxpayers, the total outgoings can be easily derived. Further, the breakup of the total outgoings into the three categories, viz., (i) investment/expenditure in respect of which deduction is claimed under Chapter VI-A, (ii) other investments like immovable property, vehicles, bonds, Jewellery, shares, units and other financial instruments, and (iii) other outgoings (including household expenses), is also not difficult to furnish. The amounts relating to the first two categories are known to all taxpayers since these are lumpy investments supported by underlying documentations. Therefore, the third category is a residual amount and can be easily derived. The cash-flow statement does not require any extra details or books of accounts to be maintained on the part of the salaried taxpayer.

Thus, the new Form 2F strikes an appropriate balance between compliance burden, the information necessary for enforcement, needs of computerization and taxpayer education, and intends to help the honest taxpayers"

**14. The Committee are not impressed with the belaboured justification of the Government for the revision in the Income Tax return proforma (Sarl Form) and the introduction of a new form in its place. The merits of the new form have been stated to be adequacy of space, non-requirement of Annexure, provision of worksheets by way of schedules and detailed instructions for guidance of filers. It also has a provision for a cash-flow-statements, considered as a harsh measure, which requires the filers to furnish information on the total inflow and outflow of funds in a year. According to the Ministry, the new Form 2F seeks to establish an appropriate balance between compliance, the information necessary for enforcement and the needs for computerization and tax payer education. The Committee note that the Ministry of Finance (Department of Revenue) have been trying to formulate a risk management strategy for better tax enforcement by securing information on annual cash flows from the taxpayers with a view to identifying specific cases for intensive investigation. The Committee, however, believe that such a well thought out strategy should be executed with greater clarity and sharper focus on the high-income groups and evasion-prone categories, while distinguishing and exempting those categories whose entire Income is deductible for tax at source itself like the salaried class and other fixed income groups. The Committee, therefore reiterate their considered view that any revision of tax return form should be made keeping this end in view and only if considered necessary for further simplification and rationalization of the process. The Form should be as simple and easy to fill and not deter taxpayers or potential taxpayers from filing returns at all. It should neither instill needless fear into their minds. In this context, the Committee would urge the Government to re-consider and review the decision to introduce the provision for a cash flow statement to be filed along with the return.**

**The Committee would also expect the Income Tax Department to tone up their enforcement machinery for quick and effective processing of tax returns, their scrutiny and assessment; particular emphasis in their regard needs to be placed on tax refunds, which has been rather a weak area for the Department so far, warranting their urgent attention and greater flexibility. The Committee would await the Ministry's response on the results achieved on this front.**

## CHAPTER II

### OBSERVATIONS/RECOMMENDATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

#### **Recommendation**

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 core 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 the pre-assessment collection as a percentage of total collection rose from 79.46 per cent to 85.33 percent, 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 collection are not of the same degree as those in post-assessment collection. The Committee are, thus, inclined to conclude that the main contributory reasons for the growth 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 cost of collection 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 tax collections."

[Sl. No. 6 of Appendix II, Para 157 of the 29th Report of the PAC  
(14th Lok Sabha)]



### Action Taken

The most objective way to assess the performance of the Income Tax Department in the area of post assessment collection is to analyze the growth in amounts of additional tax levied on the taxpayers and collection by way of recovery from outstanding tax dues. The table below depicts the average performance in these areas four years prior to and four years after restructuring (2001-02 considered as zero-year being the year of transition):

Assessment Criteria	Post-restructuring Period (2002-03 to 2005-06)	Pre-Restructuring Period (1997-98 to 2000-01)
Collection of arrears as a ratio of total outstanding arrears:	7.54%	7.83%
Collection of taxes out of demands raised during the year (current demand):	27.26%	11.68%
Cash collections out of arrear and current demand as percentage of total budget collections:	15.71%	12.00%
Outstanding arrears as a ratio of total budget collections:	79.57%	99.37%

Detailed chart showing year-wise statistics is given at *Annexure-I*

As can be seen from the table above, barring a slight decline in the areas of recovery from arrears from 7.83% to 7.54%, there has been considerable improvement in all other indices for assessing the performance of the Department with regard to the post-assessment collection. As regards the recovery of arrears, larger amount of taxes raised are now being collected within the same year itself.

In the post-restructuring period, the Department has not only levied higher amounts of additional tax on the tax payers, but has also made much greater recoveries to the extent of 27.26% of the taxes so levied, as compared to 11.68% recovered in the pre-restructuring period.

The contribution of the post assessment collections in the total collections has also increased significantly from 12% in pre-restructuring period to 15.71% after restructuring, which when seen in absolute terms of the revenue collected puts the post-restructuring performance of the Department in perspective.

As a result of better collection made out of current taxes, the outstanding amount of arrears as ratio of total collections has sharply declined from 99.37% in pre-restructuring period to 79.57% in the post-restructuring phase. This demonstrates that, post-restructuring, the growth in the revenue collection has been much higher than the growth in outstanding arrears and increasingly larger amounts of taxes raised are being collected/recovered by the Department.

(Ministry of Finance/Department of Revenue, O.M.F. No. 240/6/2006-A&PAC-II, dt 9.2.07)

## ANNEXURE-I

## POSITION OF CASH COLLECTION OUT OF ARREAR AND CURRENT DEMAND

	2005-06	2004-05	2003-04	2002-03	2001-02	2000-01	1999-00	1998-99	1997-98
<b>A Arrear Demand</b>									(Rs. In Crore)
1 Arrear Demand brought forward at beginning of year (Adjusted)	100336	94063	74824	76313	57399	53959	44862	41862	34805
2 Collections out of arrear demand	8064	7084	5540	5470	3930	4970	2983	3049	2845
<b>%age of Collection</b>	<b>8.04%</b>	<b>7.53%</b>	<b>7.40%</b>	<b>7.17%</b>	<b>6.85%</b>	<b>9.21%</b>	<b>6.65%</b>	<b>7.29%</b>	<b>8.17%</b>
<b>Average:</b>	<b>7.54%</b>					<b>Average:</b>	<b>7.83%</b>		
3 Reduction out of arrear demand	15035	20098	14014	22070	10789	13696	10456	11285	6756
4 Unliquidated arrear demand at year end	77237	66881	55270	48773	42680	35293	31423	27494	25204
<b>B Current Demand</b>									
1 Current Demand raised during the year (net of pre-paid taxes)	58951	47365	43226	30817	34316	28267	25114	18821	19466
2 Amount collected out of current demand	16389	15632	10610	7300	4326	3837	3400	2021	1724
<b>%age of Collection</b>	<b>27.80%</b>	<b>33.00%</b>	<b>24.55%</b>	<b>23.69%</b>	<b>12.61%</b>	<b>13.57%</b>	<b>13.54%</b>	<b>10.74%</b>	<b>8.86%</b>
<b>Average:</b>	<b>27.26%</b>					<b>Average:</b>	<b>11.68%</b>		
3 Un-liquidated current demand	42562	31733	32616	23517	29990	24430	21714	16800	17742
<b>C Total Demand carried forward to next year (A4+B3)</b>									
TOTAL COLLECTIONS (ARR+CURR)	119799	98614	87886	72290	72670	59723	53137	44294	42946
BUDGET COLLECTIONS	24453	22716	16150	12770	8256	8807	6383	5070	4569
%AGE OF BUDGET COLLECTIONS	164641	131948	104948	83038	68613	67460	56347	44769	37117
<b>Average:</b>	<b>15.71%</b>					<b>Average:</b>	<b>12.00%</b>		
OUTSTANDING ARREARS AS %AGE OF BUDGET COLLECTIONS	72.76%	74.74%	83.74%	87.06%	105.91%	88.53%	94.30%	98.94%	115.70%
<b>Average:</b>	<b>79.57%</b>					<b>Average:</b>	<b>99.37%</b>		

### **Recommendation**

One of the benefits which were intended to accrue out of restructuring was the reduction in the uncollected demands. However, the objective also does not seem to have been achieved. This is evident from the fact that percentage of uncollected demand had gone upto 56.79 in the year of restructuring of Income Tax Department *i.e.* 2001-2002 from 45.44 in 2000-01. In 2002-03 and 2003-04, 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 2004-05. As regards higher percentage of uncollected demands in 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 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 maximize 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.

[Sl. No. 10 of Appendix II, Para 161 of the 29th Report of the PAC  
(14th Lok Sabha)]

### **Action Taken**

The arrear out of total demand remaining outstanding as on 31.3.2005 was approximately 70% while that remaining outstanding as on 31.3.2006 was approx. 77% in percentage terms (**Annexure-III**). There is no doubt that there has been increase in the outstanding arrear demands at the close of the F.Y. even though in absolute terms collections out of arrear demand has gone up from Rs. 5540 crore to Rs. 7083 crore, *i.e.* an increase of 27.85% in F.Y. 2005-06 as compared to F.Y. 2004-05 (**Annexure-IV**). Out of the arrear demand of Rs. 65513 crore brought forward as on 1st April, 2005, Rs. 28287 crore (43%) pertains to cases where the assets of the defaulters, the notified persons and 'scam' cases, are in the custody of the Court and the Income Tax Department does not have first claim over these

assets. Further, Rs. 16391 crore (25%) is pending in cases where defaulters have no assets against which recovery may be enforced. Again, Rs. 7610 crore (11.6%) is due from companies are in liquidation or are before BIFR. Thus, in all, Rs.52288 crore (80%) is difficult to recover. Arrear demand at the close of 2005-06, including arrear-out-of fresh demand raised during the year, is Rs. 117083 crore. Out of this, Rs. 25001 crore has not fallen due. Thus, arrear demand for collection brought forward on 1st April, 2006 is Rs. 92083 crore. After excluding the demand difficult to recover for reasons mentioned above, the balance arrear demand as on 1st April, 2006 is Rs. 34154 crore. Out of this, Rs. 11165 crore is protective demand or demand raised to keep contested issues alive. Further, Rs. 16616 crore is non collectible in the near term for various reasons such as pending settlement proceedings, stay by the ITAT and the Courts, PSUs before the COD, assesses in MAP (Intl. Tax) etc. **The net collectible demand, thus, is only Rs. 6372 crore only.** In the Central Action Plan For F.Y. 2005-06, in order to emphasize the arrear cash collection, recovery targets were assigned to individual Cadre Controlling CCsIT totalling Rs. 10000 crore. Rs. 8064 crore have been collected during the year till now, which represent around 80% of the targets.

As regards the observation of the Committee that the Ministry should closely monitor the achievement of recovery targets in a time bound manner, it is to be stated here that specific recovery targets have been assigned to each Cadre Controlling in F.Y. 2006-07 of total Rs. 11741 core, being 10% of the outstanding demand as on 01.4.06. Till September 2006, the total cash collection out of arrear demand stands at Rs. 6848 crore representing 58.3% of the target of Rs. 11741 crore. Besides, With a view to realize early collection of the outstanding demand and to check the translation of collectible demand into demand difficult to recover, the Central Board of Direct Taxes *vide* amendment in the Direct Taxes Act, has advanced the date of finalization of the assessment matters/orders to December of F.Y. concerned. This will ensure that three months time is available with the field formations to pursue recovery matters without being bogged down by time barring assessments. Further, 300 dossier cases of demands over Rs. 1 crore have been selected for special focus in current F.Y. and the total demand covered in these dossiers is Rs. 57431 crore *i.e.* approx. 49% of the total outstanding demand as on 01.04.06. The targets as given to the various CCsIT are circulated *vide* Central Action Plan. The targets fixed for various CCsIT/DGsIT are monitored by the concerned Zonal Members and the performance/achievement is monitored through the monthly D.Os. A new compendium on "write off" is being prepared in order to assist the field formations in this work. This would facilitate reduction of uncollectible demands.

(Ministry of Finance/Department of Revenue, O.M.F. No. 240/6/2006-A&PAC-II  
dt. 9.2.07)

## ANNEXURE-II

(Rs. in crore)

F.Y.	Arrear demand at the beginning of the year	Fresh Demand raised as a result of assessments.	Collection out of fresh demand	Collection out of arrear demand	Reduction out of arrear demand due to appeals etc.	Reduction out of current demand due to appeals etc.	Total Collection against arrear as well as fresh demand 4+5	Arrear out of arrear demand	Arrear out of current demand	Total arrear demand
2004-05	93004	51657	15414	7083	20086	1742	22497	65835	34501	100336
2005-06	100336	58951	16389	8064	15035	2716	24453	77237	39846	117083

## ANNEXURE-III

(Rs. in Crore)

## CASH COLLECTION &amp; REDUCTION OF ARREARS (IN RS CRORE)

Period	Cash Collection	Reduction by Disposal of Appeals Etc.	Total
Financial Year 2003-04	5540	14014	19554
Financial Year 2004-05	7083	20086	27169
Percentage Increase Over Financial Year 2003-04	27.85%	43.33%	38.94%

(Rs. in Crore)

Period	Cash Collection	Reduction by Disposal of Appeals Etc.	Total
Aug 03-Mar 04	2606	9528	12134
Aug 04-Mar 05	5361	15411	20086
	105.72%	61.74%	65.53%

**Recommendation**

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 1.88 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 assesseees were dissatisfied was also correspondingly increasing during this period. The additional 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 percent in 1999-2000 to 35.14 percent 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 CCsIT. 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 to pendency of appeals and to suggest ways and means of early disposal including augmenting the strength of the CsIT and fixing monthly targets of disposal. The action taken in this regard may be reported to the Committee at the earliest.

[Sl.No. 11 of Appendix II, Para 162 of the 29th Report of the PAC  
(14th Lok Sabha)]

#### **Action Taken**

As a result of the steps taken by the Department, number of cases looked in appeal has shown a steady decline from 2,76,513 as on 31.03.2001 to only 64125 as on 31.03.06. Out of these only 12,902 appeals were pending for more than a year. Thus, the average pendency of appeals per CIT(A) has come down significantly. During the period 01.04.05 to 31.03.06, 72,124 fresh appeals were instituted before the CsIT(A) whereas a total of 70,794 appeals were disposed off during this period.

Following measures have been taken by the Department to reduce pendency before the CIT(A) and ITAT:—

- (a) The CBDT issues instructions from time to time fixing the norm for disposal of appeals by the CsIT(A) in a month and with effect from April, 2005 the monthly disposal target for each CIT has been fixed at 60 *units*;
- (b) Administrative CCsIT monitor the performance of CsIT(A) under their control on a periodical basis to ensure expeditious disposal of cases;
- (c) The CsIT (A) having less pendency have been given concurrent jurisdiction with CsIT(A) having substantial pending so as to expedite disposal of cases;
- (d) In an effort to minimize litigation, CBDT has issued instructions fixing monetary limits for filing of departmental appeals before the ITAT, High Court and the Supreme Court etc.;

- (e) Requests have been made to the President of the ITAT for early disposal of cases pending before various benches of the ITAT.

The monthly disposal target for each CIT(A) has been fixed at 60 *units* for different categories of appeals. *Unit* allocation is as follows:—

Sl.No.	Category of Appeal Case	Units
1.	Search assessments (Core case only)	5
2.	Non Corporate assessment having demand above Rs. 1 crore	2
3.	Corporate assessment having demand of above Rs. 2 lakh and below Rs. 1 crore	2
4.	Corporate assessment having demand of above Rs. 1 crore but below Rs. 50 crore	3
5.	Corporate assessment having demand of above Rs. 50 crore	4
6.	Enhancement case	1

In the post-restructuring period, cases are largely being disposed in the year of institution itself.

Regarding appeals/writs/references at the ITAT level, it is submitted that besides assesses' appeals, appeals are preferred before the ITAT by the Department also.

(Ministry of Finance/Department of Revenue O.M.F. No. 240/6/2006-A&PAC-II dt. 9.2.07)

### **Recommendation**

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 after-math 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.

[Sl. No.12 of Appedix II, Para 163 of the 29th Report of the PAC (14th Lok Sabha)]

### **Action Taken**

The Kelkar Committee in its Report on Tax Reforms had recommended processing of all returns within four months of filing instead of one year from the end of financial year in which the return was filed, which effectively meant a period of around



20 months. To enable the Department to meet this schedule the Board decided to allow all field formation to outsource data entry of the returns. This decision on processing of returns within four months came up after Restructuring, hence the requirement of extra man power to implement the decision was not envisaged at that stage.

As far as cost implication of this decision is concerned, the same was analysed, and it was observed that the amount of interest on refunds saved due to timely processing was found to be much more than the cost involved in outsourcing of data entry work.

It is submitted that the initiatives of the Ministry, and the services made available to the Tax Payers, are being streamlined as a continuous process. The underlying principles have also been incorporated in the 'Vision 2010-Documents' adopted by the Central Board of Direct Taxes.

(Ministry of Finance/Department of Revenue O.M.F.No. 240/6/2006-A&PAC-II dt. 9.2.07)

### **Recommendation**

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 issuance 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.

[Sl. No.13 of Appendix II, Para 164 of the 29th Report of the PAC  
(14th Lok Sabha)]

### **Action Taken**

There are four components of time due to which assessee gets interest on refund:

- (i) Statutory time allowed of file return by due date without interest/penalty,
- (ii) filing of return is voluntary and assessee may file return up to 31st March of next financial year, much beyond the 'due date',
- (iii) returns are processed sequentially, in ever increasing number, &
- (iv) time lag in finalisation of appeals, and appeal effects thereon.

Refund is a continuous process of the Income Tax Department, arising from excess taxes paid by/collected from assessee. Further, Department does not have control over the appellate mechanism other than administrative control over appeals before the CsIT (Appeal) where the delay in deciding the appeals has been brought down to a large extent.

Administrative instructions are in place to process the returns within 4 months of receipt of the return so as to reduce the incidence of interest on refund. Besides, following measures would further streamline the process of issue of refund.

- a. the dematerialization of TDS certificates, under process, would streamline the process of electronic verification of TDS,
- b. Electronic Clearing System (ECS) has been introduced in 12 major cities so as to enable the Department to directly credit refunds into the bank account of taxpayer. This scheme was launched on 24/01/2007 by the Hon'ble Finance Minister, and
- c. The department has also introduced a Scheme of "Refund Banker" under which a designated nationalized bank will issue refunds to the tax payers, either through ECS or through 'Paper Cheque'. This Scheme, at present launched as a pilot project, is expected to reduce the delay in issuance of refund and prevent fraudulent encashment of refund.

The number of tax payers is continuously increasing and revenue collection has almost doubled in 3 years, but supporting infrastructure to handle such growth has not increased in that proportion. As a result certain delay is caused due to shortage of manpower, and time required for verification of taxes paid or deducted so as to prevent bogus/falsified claim of refund. Computerized processing of returns, and increase in manpower, would help in ensuring timely issue of refunds. Interest paid as percentage of refund has been considerably reduced.

Refund as percentage of net collection is continuously declining which can be seen from the table below:—

(Rs. in crore)

Financial Year	Net collection	Amount of Refund	Refund as % of net collection	Interest paid to the assessee	Interest paid as % of Refund
2002-03	83038	22030	26.53	6268	28.45
2003-04	104949	25737	24.52	4701	18.26
2004-05	131948	28514	21.61	3865	13.55
2005-06	164950	29435	17.84	4553	15.46

Data in respect of interest paid on refunds, and period of delay, if any, in individual cases, is not maintained by the Department. In computerized processing of the return interest payable on refund is automatically accounted for by the system. The Central Board of Direct Taxes has already considered monitoring of issuance of refunds through computerized reporting system of i-Taxnet. The relevant information in respect of issuance of refunds will be available on-line to the higher authorities.

(Ministry of Finance/Department of Revenue O.M.F.No. 240/6/2006-A&PAC-II dt. 9-2-07)

#### **Recommendation**

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 the 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 number 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.

[Sl. No. 14 of Appendix-II, Para 165 of the 29th Report of the PAC (14th Lok Sabha)]

**Action Taken**

(1) As regards filling up of promotion quota vacancies, these are being filled up regularly subject to availability of eligible officials in the feeder grades. In the group 'A', for example, vacancies have been filled up recently as under:—

Sl. No	Level of the Officer	Vacancy Year	Remarks
1.	CCIT	2006-07	33 CsIT promoted as CCsIT vide Order dt. 04/01/2007
2.	CIT	2005-6& 2006-07	DPC already held in November '06. Recommendations of UPSC are with Appointments Committee of Cabinet.
3.	Jt. CIT	2006-07	40 Dy. CsIT promoted as Jt. CsIT vide Orders dt. 25/01/07
4.	ACIT	2003-04, 2004-05, 2005-06	9,103 & 134 ITOs promoted as Asst. CsIT on Ad hoc basis regularised vide order dt. 29/12/2006
5.	ACIT	2006-07	Proposal for 143 vacancies sent to UPSC on 25.1.2007.
6.	CsIT	2006-07	Proposal for 93 vacancies sent to UPSC on 29.12.06
7.	Addl. CsIT	2006-7	Proposal for promotion of 129 Jt. CsIT to Addl. CsIT is under process.

(2) As regards direct recruitment quota vacancies, the Recruitment Rules (RRS) of the Group 'C' posts of Stenographers and Office Superintendent have been notified, the latter on 03/02/2007, while that of Inspectors are being revised as per recommendations of DOP&T. The RRs of DPA Grade-I & 2 of 1995 have been struck down by the Hon'ble Supreme Court, and the RRs for these posts are being framed.

Further, DOP&T vide their OM No. 2/8/2001-PIC dated 16/5/2001 imposed condition of limiting direct recruitment to 1/3rd (further subject 1% of the total sanctioned strength of the Department) of vacant posts arising in a year, and the remaining 2/3rd posts to be abolished. The Department approached the Cabinet/Committee of Secretaries (COS) seeking exemption from the DOP&T's OM dated 16/5/2001. The COS in its meeting of 28/7/2005 decided that:—

- (i) no exemption shall be provided to CBDT with respect to DOP&T's O.M. dated 16/5/2001. A Committee comprising of Secretaries of Departments of Revenue, Expenditure and Personnel & Training would comprehensively analyse the manpower requirement of the Department keeping in view the quantum and nature of duties assigned to it and give its recommendations within three months;

- (ii) In the meantime, the Department would be permitted to recruit personnel against 3300 direct recruitment vacancies out of the existing 8000 (approx.) vacant posts.

In pursuance of the above direction of COS, the Screening Committee under the chairmanship of Revenue Secretary approved the Annual Direct Recruitment Plans of year 2001-02 (revised), 2002-03, 2003-04, 2004-05 and 2005-06 in April 2006. CBDT is in the process of filling up these 3300 posts in different grades as per the Government instructions/guidelines.

It may be mentioned that the total number of vacancies arising due to retirements, post-restructuring, during the financial years 2001-02 to 2005-06, were 9138. Out of these vacancies the **Department surrendered/abolished 5838 posts** in terms of the decision of the COS and the DOP&T's O.M. dt. 16/5/2001. Thus, the sanctioned posts of the Department came down from **60250** at the time of Restructuring to **54412 as on 01/4/2006**.

The Hon'ble Committee is aware that the tax base of the Department, both in terms of the revenue collection( from Rs. 68,305 crore in F.Y 2000-01 to Rs. 1,65,205 crore in F.Y 2005-06) and the number of assesseees ( from 1.12 crore in F.Y 2000-01 to 3.15 crore in F.Y 2005-06) has been progressively increasing. In fact, beside the onerous task of managing the vastly increased tax base, the Department's mandate has expanded to new areas of enforcement activities like Annual Information Returns (AIR), Banking Cash Transaction Tax (BCTT), International Taxation, Transfer Pricing, Fringe Benefit Tax (FBT) in the last couple of years. Consequently, besides the necessity to strengthen the Assessment and Intelligence machinery, the strengthening of Training, Audit, Vigilance and Appellate functions are also essential. Accordingly, in terms of the decision of the COS on 28/7/2005, the Department approached the COS with a comprehensive analysis of manpower requirement in context to the vacancy of 9138 and abolition of 3300 posts, and presented the proposal for 9461 posts. In the 'Note for COS' concern expressed by the Public Accounts Committee was incorporated. Subsequently, in consultation with the Department of Expenditure, the proposal for 7051 posts was presented to the COS. The Committee of Secretaries (COS) in its meeting held on 15/9/2006 approved the proposal and decided that:

- (a) the Department of Revenue may bring the proposal for filling up 7051 posts before the Cabinet for approval, and
- (b) The proposal will clearly indicate,
  - (i) the phasing for filling up the posts, and
  - (ii) the net intake of manpower into the system at various levels.

Accordingly, the Cabinet has approved additional manpower for the Income tax department in various grades in November' 2006 as below:

SI. No.	Name of the post	Pay scale	Additional posts created
1.	Commissioner of Income Tax	Rs.18400-500-22400	33
2.	Additional Commissioner of Income Tax	Rs.14300-400-18300	137
3.	Deputy Commissioner of Income Tax	Rs.10000-325-15200	118
4.	Income Tax Officer	Rs.7500-250-12000	244
5.	Inspector of Income Tax	Rs.6500-200-10500	1193
6.	Office Superintendent	Rs.5500-150-8000	62
7.	Senior Tax Assistant	Rs.5000-150-8000	248
8.	Tax Assistant	Rs.4000-100-6000	4014
9.	DPA Gr.-A	Rs.5500-175-9000	58
10.	Stenographer Gr.-III	Rs.4000-100-6000	944

With these posts, the status of the Sanctioned posts vis-a-vis working strength, as on 01/01/07, are as under (the cadre wise data is enclosed at **Annexure-V**) :

SI.No.	Cadre	Sanctioned Strength	Working Strength
1.	CCIT	116	106
2.	CIT	731	640
3.	Add/ Jt CIT	1253	1052
4.	Dy/Asst. CIT	2092	1396
5.	Other Group'A' Posts	238	61
6.	ITOs	4448	4136
7.	Other Group'B' Posts	1769	1427
8.	Insepctor	9793	7427
9.	Office Supdt.	2530	2146
10.	Sr.TAs	8581	7483
11.	TAs	11282	5998
12.	Stenographers	5504	2868
13.	Other Group'C' Posts	4723	4225
14.	Peons	3091	2542
15.	Other Group'D' Posts	5312	4696
Total		61463	46253

Furthermore, it is submitted that in spite of the sanction of 7051 posts as above, the conditions imposed by DOP& T vide their OM No. 2/8/2001-PIC dated 16/5/2001 limiting direct recruitment to 1/3rd (subject to 1% of the total sanctioned strength of the Department) of vacant posts arising in a year, and abolishing the remaining 2/3rd posts would continue to apply on the sanctioned strength of 54412 as on 01/4/2006,

and commensurate number of posts would have to be abolished / surrendered every year even in future.

It is also submitted that in accordance with the statement of the Hon'ble Finance Minister in the Parliament, as also submitted to the Standing Committee on Finance and the Public Accounts Committee, the percentage of scrutiny assessments is to be increased from the present 0.8% of the total number of returns to 2% of the total number of returns. This would envisage further strengthening the Intelligence and Assessment machinery to at least double of the present strength of these Wings. The Department of Expenditure, *vide* Ministry of Finance (DoE) I.D. No.876/E.Coord.I/2006 dated 18/8/2006, have observed that certain non core functions be outsourced and manpower requirement in the light of increasing number of assessee be reviewed in 2008. Besides, the revenue collection and the number of assessee are likely to further increase substantially by 31/03/2008 (the target for revenue collection for F.Y. 2006-07 itself is Rs. 2,10,419 crore as per Budget Estimates for F.Y. 2006-07). Accordingly, in terms of the observations of the Department of Expenditure the manpower requirement as on 01/04/2008 would be reviewed and steps would be taken.

(Ministry of Finance/Department of Revenue O.M.F. No. 240/6/2006-A&PAC-II  
dt. 9.2.07)

## ANNEXURE-V

## Sanctioned/Staff Strength of the Income Tax Department (CBDT)

S.No.	Name of Post	Pay Scale (a)	Status of Post Gazetted/ Non Gazetted (b)	Regular/ Temporary/ Adhoc (c)	Group of Post Gr. A/ Gr. B/ Gr. C/ Gr. D/ (d)	Total No. of sanction- ed Posts (e)	No. of Employees in position as on 30.09.06 (f)
1	2	3	4	5	6	7	8
1.	CCIT/DGIT	22400- 24500	Gazatted	Regular	Gr.A.	116	112
2.	CIT/DIT	18400- 22400	-do-	-do-	-do-	731	684
3.	Addl. CIT	14300- 18300	-do-	-do-	-do-	606	
4.	Joint CIT	12000- 18500	-do-	-do-	-do-	647	
5.	DCIT	10000- 15200	-do-	-do-	-do-	1358	1436
6.	ACIT	8000- 13520	-do-	-do-	-do-	734	
<i>Sub-total Group-A (IRS)</i>						4192	3244
7.	Chief Engineer	18400- 22400	-do-	-do-	-do-	09	05
8.	Suptd. Engineer	12000- 18500	-do-	-do-	-do-	16	
9.	Executive Engineer	10000- 15200	-do-	-do-	-do-	76	00
10.	Computer Manager	12000- 18500	-do-	-do-	-do-	05	54
11.	System Analyst	10000- 15200	-do-	-do-	-do-	25	
12.	Programmers	8000-13500	-do-	-do-	-do-	72	
13.	DD (OL)	10000- 15200	-do-	-do-	-do-	05	02
14.	Sen. Admn. Officer	10000- 15200	-do-	-do-	-do-	05	00
15.	Chief Statist.Advisor	8000-13500	-do-	-do-	-do-	01	00
16.	Deputy CSA		-do-	-do-	-do-	01	00
17.	Asstt. CSA		-do-	-do-	-do-	01	
18.	CSA (Jr. Scale)		-do-	-do-	-do-	01	
19.	Sampling Officer		-do-	-do-	-do-	01	
20.	AD (DOMS)		-do-	-do-	-do-	06	
21.	Other Gr.-A (different scales)		-do-	-do-	-do-	13	
<i>Sub-total</i>						238	61
<b>Grand Total</b>						<b>4430</b>	<b>3305</b>



1	2	3	4	5	6	7	8
22.	Admn. Officer Gr.-III	6500-10500	Gazatted	Regular	Gr.B	774	
23.	Admn. Officer Gr.-II		-do-	-do-	-do-	35	741
24.	Income Tax Officer	7500-12000	-do-	-do-	-do-	4448	4136
25.	Sen. PS	6500-10500	-do-	-do-	-do-	117	087
26.	Private Secretary	6500-10500	-do-	-do-	-do-	706	516
27.	DPA Gr. B	6500-10500	-do-	-do-	-do-	55	028
28.	Addl. Asstt. Director	6500-10500	-do-	-do-	-do-	10	02
29.	Section Officer	6500-10500	-do-	-do-	-do-	01	
30.	Asstt. Director (OL)	6500-10500	-do-	-do-	-do-	70	53
31.	Asstt. Addl. Director	6500-10500	-do-	-do-	-do-	01	
<i>Total (Gr. B)</i>						6217	5563
32.	Income Tax Inspector	5500-9000	Non-Gazatted	-do-	Gr.C	9793	7427
33.	Officer Suptd.	5500-9000	-do-	-do-	-do-	2530	2146
34.	Sr. Tax Assistant		-do-	-do-	-do-	8581	7483
35.	Tax Assistant	4000-6000	-do-	-do-	-do-	11282	5998
36.	DPA Gr.-A	5000-8000	-do-	-do-	-do-	160	045
37.	Sr. Hindi Translator	5000-8000	-do-	-do-	-do-	52	41
38.	Jr. Hindi Translator	4500-7000	-do-	-do-	-do-	75	44
39.	Steno Gr.-I	5500-9000	-do-	-do-	-do-	1022	792
40.	Steno Gr.-II	4500-7000	-do-	-do-	-do-	2037	1616
41.	Steno Gr.-III	4000-6000	-do-	-do-	-do-	2445	0460
42.	LDC	4000-6000	-do-	-do-	-do-	355	0490
43.	PT Instructor	5000-8000	-do-	-do-	-do-	01	
44.	Staff Car Driver (SG)	5000-8000	-do-	-do-	-do-	38	
45.	Staff C Driver (Gr.-I)	3050-4590	-do-	-do-	-do-	265	
46.	Staff C Driver (Gr.-II)	4000-6000	-do-	-do-	-do-	227	677
47.	Staff C Driver (O.G)		-do-	-do-	-do-	210	
48.	Notice Server	2650-4000	-do-	-do-	-do-	2992	2861
49.	Sr. Gestnor Operator	3050-4590	-do-	-do-	-do-	14	09
50.	Superintendent	5500-9000	-do-	-do-	-do-	09	
51.	Sr. Technical Asstt.		-do-	-do-	-do-	13	
52.	Technical Asstt.		-do-	-do-	-do-	12	
53.	Research Asstt.		-do-	-do-	-do-	06	
54.	Supted (Jr.)		-do-	-do-	-do-	01	
55.	Assistant	5000-8000	-do-	-do-	-do-	57	58
56.	UDC		-do-	-do-	-do-	85	
57.	Sr. Librarian		-do-	-do-	-do-	01	
58.	Other Gr.-C (different scales)		-do-	-do-	-do-	150	
<i>Total Gr.-C</i>						42413	30147
59.	Peon	2550-3200	-do-	-do-	GrD	3091	2542
60.	Jamadar	2550-3200	-do-	-do-	-do-		
61.	Daftry		-do-	-do-	-do-		
62.	Watchman		-do-	-do-	-do-	5276	4682
63.	Sweeper		-do-	-do-	-do-		
64.	Farash		-do-	-do-	-do-		
65.	Mali		-do-	-do-	-do-		
66.	Jr. Gest Operator	2610-3540	-do-	-do-	-do-		14
67.	Other Gr.-D		-do-	-do-	-do-	36	
<i>Total Gr.-D</i>						8403	7238
Grand Total (Gr. A+B+C+D)						61463*	46253

\* Including 7051 posts sanctioned in November 2006 but excluding 5838 posts kept in abeyance for abolition pertaining to the Recruitment year 2001-02 to 2005-06 in terms of DOP&T OM No. 2/8/2001-PIC dated 16.02.2001.

### **Recommendation**

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 of 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 finalized 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-a-vis* the expected outcomes.

[Sl. No. 15 of Appendix II Para 166 of the 29th Report of the PAC  
(14th Lok Sabha)]

### **Action Taken**

The Internal Audit Chain System introduced in 2001 has since been reviewed. The matter was considered by the Board in its meeting on 19th January, 2007. The Board have decided to abolish the existing system of Chain Audit and introduce the old system of Internal Audit, conditioned to the present work norms, as a specialised audit wing. The Board have constituted a Committee under the Chairmanship of the DGIT (Admin.) to examine the structure and norms of, and re-organisation of manpower for, Internal Audit. The Committee's report, to be submitted by 15th March, 2007, would accordingly be considered by the Board so as to put in place the re-structured Internal Audit set up.

(Ministry of Finance/Department of Revenue O.M.F. No. 240/6/2006-A&PAC-II  
dt. 9.2.07)

### **Recommendation**

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.

[Sl. No. 18 of Appendix II, Para 169 of the 29th Report of the PAC  
(14th Lok Sabha)]

#### **Action Taken**

- (i) As submitted earlier, growth in revenue collection and progress in other key areas of performance are results of an intricate interplay of several factors. It is not feasible to develop any methodology by which the contribution of each such factor, including restructuring of the Department, can be separately worked out. It is submitted that on several parameters of evaluation, the performance of the Department in key areas, including gains of revenue, has been appreciably better in the post-restructuring stage as compared to the pre-structuring period. The assurances given in the restructuring proposal have been substantially fulfilled and there is little justification for discounting the seminal contribution of restructuring in the remarkable growth of the Department.
- (ii)(a) Disposal of pending cases of Scrutiny Assessments: Kindly refer to reply to paras 150 & 151 at pages 06 & 08-09 respectively.
- (ii)(b) Disposal of appeals: Kindly refer to reply to para 154 at pages 16-17.
- (ii) (c) Refunds: Computerized processing of returns, within four months, has facilitated early issue of refunds. With increase in manpower, to be effected in three phases in three years as per the approval of the Cabinet, would

enable the Department to further reduce delay in processing of returns and issue of refunds in time. Further,

- a. The dematerialization of TDS certificates, under process, would streamline the process of electronic verification of TDS,
- b. Electronic Clearing System (ECS) has been introduced in 12 major cities so as to enable the Department to directly credit refunds into the bank account of taxpayer. This scheme was launched on 24/01/2007 by the Hon'ble Finance Minister, and
- c. The department has also introduced a Scheme of "Refund Banker" under which a designated nationalized bank will issue refunds to the tax payers, either through ECS or through 'Paper Cheque'. This Scheme, at present launched as a pilot project, is expected to reduce the delay in issuance of refund and prevent fraudulent encashment of refund.

(iii) The objectives set out in proposal for Restructuring are as follows (page 3 of the Report).

- (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 of 1.34% in 1997-98;
- (c) To increase productivity in terms of the number of taxpayers per employee as on 1.4.98,
- (d) Enhancing collection through bringing efficiency in assessment, issue of refunds, post-assessment collection and disposal of appeals, and,
- (e) Improved services of tax payers.

It is stated that with a view to meet the objectives set out in the aforesaid Restructuring proposals, the Directorate of Income-tax (Systems) has been mandated by the Central Board of Direct Taxes to carry out Comprehensive Computerization of the functions of the Income Tax Department (ITD) as spelt out in the Perspective Plan of Computerization approved by the Union Cabinet, is highlighted as under:—

Sl. No	Objective	Remarks
(i)	To improve the functional efficiency and effectiveness by rationalizing the structure, standardizing the work norms and induction of technology.	The Income Tax Department (ITD) is all set to initiate Business Process Reengineering (BPR) of the Department, with a view to make them Tax Payers' friendly and amenable for efficient Automation. At present, DGIT(BPR) is in the process of finalizing the project, report on the recommendations of Price Negotiation Group (PNG) to be submitted to the Revenue Secretary for approval of the selection of consultant.

Sl. No	Objective	Remarks
(ii)	Enhancing collection through bringing efficiency in assessment, issue of refunds, post-assessment collection and disposal of appeals.	<p>The mainstay of ITD's endeavour towards these objectives are through the e-governance initiatives viz.,</p> <ol style="list-style-type: none"> <li>a. Jurisdiction free filing of returns by way of Compulsory e-filing of all Corporate Returns for A.Y. 2006-07;</li> <li>b. Option for filing of Returns in Post Offices for A.Y. 2006-07;</li> <li>c. Computerised Processing of Income Tax returns to facilitate faster processing of Refunds/Demands resulting in improved taxpayer service, Lower interest outgo on refunds;</li> <li>d. Centralised Processing of Returns on a pilot Basis of all salary Returns at Mumbai;</li> <li>e. CASS—A system for risk based computer assisted selection of cases for scrutiny has been introduced to eliminate discretion in selection of cases for scrutiny.</li> <li>f. Computerisation of TDS/TCS Functions <ul style="list-style-type: none"> <li>* Scheme of E-filing of TGDS/TCS Returns is in place through the Tax Information Network (TIN) D</li> <li>* CORPORATE Deductors/Govt. Deductors for viewing and verification of Taxes.</li> <li>* Creation of Electronics TDS accounts of Deductees for viewing and verification of Taxes.</li> </ul> </li> <li>g. E-Accounting—Tax Accounting System has been made more transparent and efficient through On-Line Tax Accounting System (OLTAS). Other facilities available include— <ul style="list-style-type: none"> <li>* Facility to verify payment of Taxes.</li> <li>* Facility for Payment/Taxes through the internet.</li> <li>* Facility to download pre-printed Challans for tax payments.</li> <li>* E-Payment of Taxes/Refunds, ECS has been introduced in phases and is available for all Refunds in 27 cities.</li> <li>* Refund Banker pilot is expected to be launched shortly in Delhi and Patna in which Printing, Despatch (including advices) of refund cheques would be outsourced to designated Banks.</li> </ul> </li> </ol>
(iii)	Improved services to tax payers.	<p>The E-Governance initiatives outlined in para (ii) have in general brought out improvement in Tax Payer Services. The efforts are also supplemented with various web enabled services through a tax payer friendly website, <a href="http://www.incometaxindia.gov.in">www.incometaxindia.gov.in</a>. The services available include downloadable Forms, Online submission of forms, Tax Calculator Facility for TATKAL PAN/TAN, PAN Query in Batch Mode, Challan Status Enquiry, on-line Filing of Grievance and their Redressal, Tax Payer information, Registration of e-intermediaries, Tracing the status of return and refunds online, AIR filer information, Online AIR return etc. A Call Centre &amp; Aayakar Sampark Kendra (ASK) is also functional to provide assistance to Tax Payers, queries.</p>

(iv) The Internal Audit System is periodically reviewed by the Office of the DIT (Audit) through following measures:—

1. A Quarterly Audit Review of the various CCIT charges is made;
2. inspections of the Internal Audit process of the various CCIT charges is made; and
3. seminars, workshops and training sessions are undertaken at different places to educate the officers to improve their performance.

(Ministry of Finance/Department of Revenue O.M.F. No. 240/6/2006-A&PAC-II  
dt. 9.2.07)

### **CHAPTER III**

#### **OBSERVATIONS/RECOMMENDATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF THE REPLIES RECEIVED FROM GOVERNMENT**

##### **Recommendation**

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 "It is not under active processing at present". It may not be out 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 the 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 CBDT may consider feasibility of entering into a MOU, even at this stage, in order to accomplish the unfinished task of restructuring."

[Sl. No. 5 of Appendix II, Para 156 of the 29th Report of the PAC  
(14th Lok Sabha)]

##### **Action taken**

As was stated by the Secretary (Revenue), the matter is not under active consideration.

(Ministry of Finance/Department of Revenue O. M. F. No. 240/6/2006-A&PAC-II  
dt. 9.2.07)

##### **Recommendation**

The restructuring proposal made to the Union Cabinet had in fact promised an estimated 200 percent 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 Commissioner would be expected to do 25 scrutiny assessments per year and the Deputy/Assistant Commissioner and ITO's 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 2002-04 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 capital 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, therefore, believes 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 utilized 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 power and the quantum of enhanced revenue that accrued to the Department there from each year.

The Committee is 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 income of the charges as Delhi, Maharashtra, Tamil Nadu and West Bengal. The completion of scrutiny assessments has thus decreased from 73.76% 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, recommends that targets should be



fixed for scrutiny assessments for each assessing officer and these should be finalized 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.

[Sl. No. 8 of Appendix II, Para 159 of the 29th Report of the PAC  
(14th Lok Sabha)]

#### Action Taken

- (i) As regards the observations of the Hon'ble Committee on 'Productivity', it is submitted that Scrutiny Assessment is just one of the functions of an assessing officer, and the Department. The revenue collection has increased from Rs. 68,305 crore in F.Y. 2000-01 to Rs. 1,65,205 crore in F.Y. 2005-06, a growth of 142% over F.Y. 2000-01, and as on 31-12-2006 the collection has already reached Rs. 1,44,286 crore against the target of Rs. 2,10,684 crore for F.Y. 2006-07. The direct taxes GDP ratio has increased from 3.27% in F.Y. 2000-01 to 4.68% in F.Y. 2005-06, and the cost of collection has come down from 1.36% in F.Y. 2000-01 to 0.74% in F.Y. 2005-06. As had been submitted earlier, productivity may be understood from the twin parameters of collection per employee and assessee per employee which have increased from Rs. 1.12 crore and 351 respectively in F.Y. 2000-01 to 3.04 crore and 579 respectively in F.Y. 2005-06 (*and Rs. 3.57 crore and 681 respectively considering the Working Strength of 46253*).
- (ii) As regards scrutiny assessments, the data of cases selected for scrutiny by the assessing officers with the approval of the CCsIT/DGsIT is not maintained separately. The cases selected for scrutiny with the approval of the CCsIT/DGsIT are part of the total basket of cases selected for scrutiny, and the monthly statistics show the total number of cases selected for scrutiny. Similarly, the tax demand raised as a result of post-assessment functions is maintained as a whole, and the data of revenue generated separately from the assessments of the cases selected for scrutiny with the prior approval of the CCsIT/DGsIT is not available.

Hence, the data of cases selected for scrutiny with the prior approval of the CCsIT/DGsIT is not separately available. The targets for disposal of scrutiny assessments by assessing officers have been fixed from the F.Y. 2006-07, and are as under:—

Sl. No.	Designation of the Assessing Officer	Charge	Minimum number of cases to be disposed of per month
1.	ACIT/DCIT	Corporate	5
2.	ACIT/DCIT	Non-Corporate/ Mixed/Salary	10
3.	ITO	Corporate	5
4.	ITO	Non-corporate/Mixed/salary	15

(Ministry of Finance/Department of Revenue O. M. F. No. 240/6/2006-A&PAC-II  
dt. 9.2.07]

### **Recommendation**

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 percent in 1999-2000 to 0.96 per cent 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 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 is dismayed that the Department did not have any mechanism at all to assess, monitor and enhance the efficiency of "Search and Seizure" operation, which would be a very important instrument of deterrence against tax evaders. The Committee desire that the Ministry should set up a coherent mechanism at least now to monitor these operations particularly with a view to ascertaining the sustenance of assessment made in respect of "Search and Seizure" cases.

The Committee felt 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" operation should not be result in "harassment" of genuine taxpayers and that these operations should be backed by proper intelligence feedback. Enforcement operations such as these, apart from being a measured of deterrence, for tax evaders, should also instill faith on the integrity of the system in the minds of the honest tax payers.

[Sl. No. 9 of Appendix II, Para 160 of the 29th Report of the PAC  
(14th Lok Sabha)]

### **Action Taken**

#### **A. Effectiveness of the search and seizure with regard to conviction of offences**

The status with regard to prosecutions launched, convictions obtained offences compounded and acquittals allowed in Search and Seizure cases *vis-a-vis* Restructuring of the Income Tax Department needs to be considered with reference to the provision applicable in the immediate post-restructuring period. In accordance with the provisions of Chapter XIV B of the IT Act (Sec. 158BC/158BD) applicable for search and seizure assessments, operational in respect of searches carried out between 01.6.1995 and 31.5.2003, there was no provision for levy of penalty for concealment of in respect of

the income admitted and disclosed by the assessee in the returns filed u/s 158BC, and no prosecution could be launched in respect of such income. Penalty could be levied only in respect of the finally assessed income over and above the income disclosed in the return filed u/s 158BC. Accordingly, even though the assessee had declared hitherto undisclosed income in his return of income, and prosecution was launched only with respect to such additional assessed income. This formed the major reason for low percentage of prosecutions launched in the search and seizure assessments during this period.

However, for searches carried out on or after 1.6.2003, penalty for concealment of income can be imposed in accordance with section 27(1)(c) read with Explanations below the section, and prosecution can be launched.

#### **B. Statistics on revenue collection and detection of concealment from search and seizure cases**

The search and seizure cases are assessed in specialized charges Known as Central Charges, under 21 Commissioners of Income Tax (Except Madhya Pradesh and Chhattisgarh charges), where the cases relating to search and seizure operations are centralized. The collections affected by the Central charges afford a reasonable estimate of collections rising out of the search seizure cases, though the collections of these charges include collections relation to post-search years as well as other cases of the searched group in which search assessments may not have been made. The details regarding search and seizure, and assessments thereof, and the undisclosed income admitted by the assessee are being regularly maintained, and monitored, in the Central Charges. However, the assessments achieve finality after conclusion of appeals before appellate authorities, including High Courts/Supreme Court, as also applications before Settlement Commission, and the final assessed income, and the resultant tax payable and collected, of the different cases of the same group materialize at different point of time, falling in different financial years, thus making co-relation of data difficult, though case to case monitoring is made by the officers of the Central Charges. Once all stations/offices are placed on 'Network', and all post-assessment processes are effected on AST software, all relevant data would be available on the network thereafter.

#### **C. Effectiveness of search and seizure operations**

The Government have taken several steps to improve the efficiency of search and seizure operations. These are listed as under:—

- (a) with the advent of information technology, search and seizure teams are assisted by computer specialists in detecting/analyzing the data on computers;
- (b) the Department has established Air Intelligence Units in all major airports to detect movement by air of undisclosed assets;
- (c) the Regional Economic Intelligence Committee (REIC), under the overall supervision of Central Economic Intelligence Bureau (CEIB), have been set up all over the country for coordination amongst the different enforcement

agencies for sharing of information relating to economic crimes and for effectively combating proliferation of undisclosed income;

- (d) infrastructural facilities by way of vehicles for reconnaissance work and for quick movement of personnel, and facilities for fast exchange of information about assesses have been provided to the officials of the Investigation Wing.

Besides, the CBDT has constituted two separate Committees for updating and improving the Search and Seizure Manual and the Survey Manual in order to serve as a guide to the Departmental officers for conducting searches and surveys efficiently while, at the same time, ensuring that no harassment is caused to the persons searched/ surveyed and to the honest tax-payers.

The CBDT has also constituted another Committee for recommending measures for improving the effectiveness of the prosecution proceedings and to suggest changes in the law and procedures relating to prosecution of economic offences, and which has been circulated to all assessing officers working in the Central Charges.

#### **D. Improving the effectiveness of Search & Seizure Assessments**

The Department has in place statutory and administrative safeguards for monitoring assessments relating to search and seizure. The supervisory authorities are involved in the assessments from the very beginning for ensuring quality of the assessment. All the Search cases are compulsorily scrutinized and the assessments are reviewed by the Commissioners of Income Tax on a regular basis in accordance with the Action Plan targets. Regular coordination between the Investigation Wing and the Assessment units takes place so that the issues raised by the Investigation Wing are considered in the assessments in perspective.

In order to further improve the quality of search and seizure assessments, the Board has recently constituted a Committee to prepare general guidelines for Assessing Officers which would serve as a guidance note for assessment of search cases.

#### **E. Strengthening the Investigation Wing**

The CBDT is aware of the need to strengthen the Investigation Wing and make it more effective. Over the last two years, the manpower strength of the Investigation Wing has been enhanced and, through constant monitoring and guidance by the higher authorities, the search and seizure operations have shown better results, not only in terms of the number of searches conducted and the amounts of assets seized but also in terms of the amount of tax evasion detected during such operations.

The information base of the Investigation Wing has also become broad based by more effective coordination with other intelligence agencies and availability of important tax related information coming from sources such as the Annual Information Returns and the information provided by the Financial Intelligence Units (FIU-IND) of the Department of Revenue.

As regards the Hon'ble Committee's observation that the Ministry should set up a coherent mechanism to monitor search & seizure operations, with a view to effective

monitoring of the quality of the search & seizure assessments and their final outcome, the CBDT has issued fresh guidelines on 22/12/2006, copy of which is enclosed at **Annexure-II**.

(Ministry of Finance/Department of Revenue O.M.F. No. 240/6/2006-A&PAC-II  
dt. 9.2.07.)

ANNEXURE II

F. No. 286/161/2006-IT (Inv.II)  
Government of India  
Ministry of Finance  
Department of Revenue  
Central Board of Direct Taxes

Room No. 243-F, North Block  
New Delhi, the 22nd December, 2006

To

Directors General of Income Tax (Inv.)  
Chief Commissioners of Income Tax (Central)

Sir/Madam

**Subject: Guidelines for assessments in search and seizure cases—reg.**

The Board has examined the existing mechanism followed in assessments relating to search and seizure cases and has decided to frame general guidelines which would enable Assessing Officers to enhance the quality of such assessments and bring uniformity in the work relating thereto. The guideline, which is elaborated in the following paragraphs, is aimed at laying down prescribed time bound action at various stages in the assessment proceedings.

**1. First Stage: From receipt of Appraisal Report to filing of Return**

1.1 It is necessary in search assessments that the Assessing Officer is acquainted with the appraisal report and the seized material before he takes up the assessments of the case.

1.2 The appraisal report is expected to be received within 60 days of the search. Any delay in receipt of the appraisal report must be brought to the notice of the concerned.

CIT (Central) by the Assessing Officer who may pursue the case with the DIT(Inv.) concerned. The DDIT(Inv.)/ADIT(Inv.) should hand over the seized material to the Assessing Officer (before whom the cases get centralized) within a week of sending the Appraisal Report.

1.3 On receipt of the appraisal report and seized material, the Assessing Officer and Range Head should jointly scrutinize the appraisal report and seized material and prepare an **Examination Note** to decide:—

- (i) Cases where notices u/s 153A of the Income-tax Act, 1961 (the Act) are required to be issued.

- (ii) Cases where notices u/s 153C of the Act are required to be issued.
- (iii) Cases where notices u/s 148 of the Act are required to be issued.
- (iv) Cases where seized material pertains to persons other than those whose cases have been centralized.

1.4 If necessary, confirmation may be obtained from the investigation wing for matching the names of entities as appearing in the warrant of authorization as against the names appearing in the *Panchanama* prepared at the time of conclusion of search.

1.5 An **Action Note**, based on a comprehensive and methodical examination of seized material, in addition to the comments available in the appraisal report, must be prepared within 90 days of receipt of the seized material (this time limit may be extended where such action note becomes due between September and December of the calendar year due to preoccupation with limitation matters). The action note must cover the gamut of the case and should contain *inter alia*.

- \* Proposal for special audit u/s 142(2A) of the Act, if necessary. In cases where special audit u/s 142 (2A) is proposed to be resorted to, care must be taken to ensure that the principles laid down in this regard by the Supreme Court in the case of *Rajesh Kumar and Others v. Deputy Commissioner of Income Tax and others* 287 ITR 91 are adhered to;
- \* Identification of further cases for centralization along with reasons thereof;
- \* Identification of cases and corresponding assessing officer where documents seized belong to persons whose cases have not been centralized.
- \* Identification of the third parties in respect of whom enquiries have to be carried out.
- \* Report on opening of all hard disks seized and printouts obtained therefrom.
- \* Identification of evidence including ascertaining of handwriting on loose papers seized and statements recorded u/s 132(4).

1.6 The Assessing Officer should ensure that the assessee has been provided an inspection of the seized material and copies thereof as requested by him. If possible, a certificate in this regard may be obtained from the assessee.

1.7 As far as possible, the assessments should be taken up group-wise to ensure a holistic approach as well as to ensure that no income remains un-assessed due to any confusion or doubt regarding the hands in which it is to be assessed. A copy of this Action Note should be sent to the CIT (Central) through the Addl./Joint CIT as part of a compliance report to enable proper supervision by him.

1.8 Statutory notices u/s 153A, 153C or 148 of the Act, as the case may be, should thereafter be issued. Proper satisfaction should be recorded before the issue of notice u/s 153C or u/s 148 as the case may be. Range heads may ensure proper action in this regard. The Assessing Officers must note that satisfaction to be recorded u/s 153C is very different from that recorded u/s 148. Under Section 153C, the satisfaction that

any money, bullion, jewellery or other valuable article or thing or books of account or documents seized or requisitioned belongs or belong to the person subjected to provisions of sec. 153C is sufficient. Sections 153A & 153C are applicable for six financial years preceding the year of search. Notice for the year of search is to be issued u/s 143(2)/142(1) of the Act.

1.9 The Assessing Officer should also explore the possibility of invoking the provisions of section 281B of the Act so as to protect the interest of Revenue. This provision is applicable only during the pendency of the proceedings for assessment. After completion of assessment, appropriate action for recovery must be taken.

1.10 Where, in the opinion of the Assessing Officer, any further enquiry by the Investigation Wing is to be carried out in respect of certain third parties, the same should be brought to the knowledge of the CIT (Central), who may, thereafter request the DIT (Inv.) for carrying out such enquiries. The DIT (Inv.) should, thereafter, carry out the necessary enquiries and inform the concerned Assessing Officers of these third parties for taking appropriate action. Timelines should be clearly set out for completion of these enquiries.

1.11 Where the Assessing Officer is of the opinion that the case has implications involving enquiry by other agencies, references to such agencies should be made by the Assessing Officer, after seeking the approval of the CIT(Central).

## **2. Second Stage: After Filing of Return**

2.1 For any assessment proceeding, it is necessary to identify the evidence that exists on record that would be required for making the additions and then develop the strategy to collect further evidence if required, so that the assessee can be confronted with the same.

2.2 A detailed questionnaire should be prepared mentioning details of the Annexures relating to the seized material and the assessee's explanation sought on the entries therein. The questionnaire should also contain the queries on the basis of documents attached with the return. If considered necessary, issue of directions under section 144A of the Act should be given by the Range head.

2.3 On a scrutiny of the reply furnished by the assessee, an analysis must be made of the submissions which are:

- a. *Prima facie* acceptable.
- b. Can be accepted only after proper enquiry.
- c. Not acceptable, in view of material on record/applicable case laws.
- d. *In disagreement with* the findings mentioned in the Appraisal Report.

2.4 The attempt at this stage should be on marshalling of the facts and putting them in chronological sequence with the primary focus on establishing the preponderance of probability. The Assessing Officer should make diligent efforts to detect the *modus*



*operandi* and the manner in which the undisclosed income was generated by the assessee. In case it is found that the seized papers corroborating the fact of generation of undisclosed income pertain to the period immediately preceding the search action, then logical conclusion of such activity being carried out by an assessee in the balance period of time, for which no documentary evidence is available, should be reached through investigation and not on presumption or multiplication formula. For this purpose, independent enquiries from banks, other financial institutions, independent parties, Govt. Departments etc. should also be carried out simultaneously.

2.5 The Assessing Officer should mention the explicit *modus operandi* of tax evasion and develop the assessment on the basis of preponderance of probabilities and draw conclusions on the basis of available evidence and facts of the case. The principles laid down by the Supreme Court in the cases of CIT v. Durga Prasad More 82 ITR 540 and Sumati Dayal v. CIT 214 ITR 801 to look into the surrounding circumstances and go behind the motive of the transactions in the light of human probabilities may be referred to.

2.6 Assesseees are increasingly resorting to filing of affidavits to substantiate their claims. The Indian Code of Civil Procedure Order 19 r. 1 of the Indian Code reads as follows:—

"Any Court may at any time for sufficient reason order that any particular fact or facts may be by affidavit, or that the affidavit of any witness may read at the hearing, on such conditions as the Court thinks reasonable:

Provided that where it appears to the Court that either party *bona fide* desires the production of a witness for cross-examination, and that such witness can be produced, an order shall not be made authorizing the evidence of such witness to be given by affidavit."

2.7 The assessing Officer must, therefore, apply his mind before admitting any affidavit on record and should not accept it without verifying the contents thereof. The rejection of the affidavit should be recorded after giving proper reasons and intimated to the assessee. If admitted, such affidavits need to be dealt with as per the Supreme Court Judgement in Mehta Parikh and Company v. Commissioner of Income Tax, Bombay 30 ITR 181 *i.e.* that the affidavit cannot be disregarded without effectively discrediting the same. Necessary enquiries should be made by invoking the provisions of sections 133(6) and 131 of the Act as applicable.

2.8 Proper opportunity of cross examination must be given to the assessee if any evidence has been collected behind his back. However, the following principles enunciated by the Supreme Court in this regard may be kept in mind.

- (i) The right of cross-examination is not an absolute right (Nath International Sales v. UOI, AIR 1992 (Del.) 295).
- (ii) The right of hearing does not necessarily include right of cross-examination (State of J&K v. Bakshi Gulam Mohammad AIR 1967 SC 122.)

2.9 If the Assessing Officer is not in agreement with any findings/conclusion drawn in the Appraisal Report, the matter should be brought to the knowledge of the Range head who should resolve it with the concerned Addl./Joint DIT(Inv.). If considered

necessary, the CIT (Central) may also resolve the issue with the DIT (Inv.). A proper office note mentioning the issues which have been accepted on the basis of the assessee's reply and evidence furnished during assessment proceeding and which are deviations from the appraisal report must be mentioned in the office note *i.e.*, note not meant for the assessee.

2.10 After receiving the replies of the assessee on questionnaire issued and after gathering further evidence in the case, instructions may be given by the Range head u/s 144A of the Act, either on his own motion or on a reference made by the Assessing Officer.

2.11 There is an increasing trend amongst assessees to approach the Settlement Commission during the pendency of assessment proceedings. The Assessing Officers may note that assessment proceedings can continue and can be completed till the date of order u/s 245D(1) by the Settlement Commission.

### **3. Third Stage: Final Show Cause Notice and Assessment Order**

3.1 After completion of the enquiries, a final show cause notice should be given to the assessee, following the principles of natural justice, giving him adequate opportunity for furnishing the reply. The legal position with regard to the principle of natural justice have been laid down by the Supreme Court in *Swadeshi Cotton Mills Co. Ltd. v. Union of India* [1981] 1 SSC 664; [1981]51 Comp. Cas. 210 (SC), (page 712).

3.2 All the issues and evidence that is going to be relied upon in the assessment order should be made available to the assessee. The final show cause notice should be prepared in consultation with the Addl. CIT and should contain:

- (i) The proposed structure of the order.
- (ii) The evidence in possession of the department.
- (iii) The case laws being relied upon.
- (iv) The opportunity of rebuttal being provided to the assessee.

3.3 Where reliance is placed by the assessee on a case law, the Assessing Officer should ascertain the question which was before the Court, rather than relying solely on the ratio of the decision. The binding precedent for this is the Supreme Court decision in *CIT v. Sun Engineering Works Pvt. Ltd.* (198 ITR 297). It has been pointed out that a decision which is not founded on reasons nor on consideration of the issues, cannot be deemed to be a law declared, to have binding effect as is contemplated by Article 141 of the Constitution of India. A summary dismissal by the Supreme Court, without laying down any law, is not a declaration of law envisaged by Article 141 (*supra*). When reasons are given the decision of the Supreme Court would be binding on all courts within the territory of India when no reasons are given, dismissal simpliciter is not a declaration of law by the Supreme Court (*S. Shanmugavel Nadar v. State of Tamil Nadu and Another* 263 ITR 658).

3.4 The assessment order should be a speaking one so that even if a layman reads the order, he should be able to understand the issue, the strength of the evidence and should be able to identify the conclusions drawn. The replies of the assessee should be considered and discussed/rebutted with proper evidence and applicable case laws.

3.5 The need for speaking orders cannot be over emphasized. The principles in this regard are laid down in *Commissioner of Police v. Gordhandas Bhanji*, AIR 1952 SC 16, at page 18). As per the Supreme Court, public orders, publicly made, in exercise of a statutory authority cannot be construed in the light of explanations subsequently given by the officer making the order of what he meant, or of what was in his mind, or what he intended to do. Public orders made by public authorities are meant to have public effect and are intended to affect the action and conduct of those to whom they are addressed and must be construed objectively with reference to the language used in the order itself. The Supreme Court reiterated the law in *Vice Chancellor, Banaras Hindu University v. Shrikant* [2006] 6 Scale 66; AIR 2006 SC 2304, (at page 2314) by stating:

"An order passed by a statutory authority, particularly when by reason whereof a citizen of India would be visited with civil or evil consequences must meet the test of reasonableness."

3.6 The additions should not be based on surmises and conjectures but on evidence collected during search and post search inquiries. The Department does not have a case to make additions on the basis of surmises and conjectures in cases where the assessee has been subjected to the rigours of search. This would also ensure that the fetters put by Rule 46A of the Income Tax Rules, 1962 on the assessee's right to produce additional evidence before the CIT (Appeals) is also effective. In this regard the DIT (Audit) letter No. F. No. RA-9/Gen./99-2000/DIT/dated 20.5.1999 in respect of the mistakes committed by the Assessing Officers involving under/over assessments may be kept in mind. The Board has also issued instructions No. 21 dated 6.2.1969, No. 71 (F. 91/47/69-ITJ (18) dated 5.7.1969 and No. 78. F. 50/78/69-ITJ (21) dated 11.7.1969 to the effect that a constant and corrective watch may be ensured as the PAC has been repeatedly expressing itself against the observed tendency on the part of the assessing officers to make high pitched assessments. The following typical omissions and commissions, as detailed below, were highlighted:

- (i) Assessing Officers make additions to sales or to gross profits or make disallowances out of expenses without giving any reasons or by giving utterly inadequate reasons; such additions are either almost entirely knocked off or substantially reduced.
- (ii) Assessing Officers tinker with remuneration paid to the Directors of the Company, applying highly subjective and unrealistic standards of reasonableness.
- (iii) While Imposing penalties for non-payment of tax, the Assessing Officer do not care to check up whether they had disposed of petitions moved by the assessee for stay of demand.

- (iv) Assessing Officers levy penalties u/s 271(1)(c) without caring to make out a convincing case; the assessee's explanation is often not discussed and shown to be unbelievable or false, nor is an attempt made to bring out clearly that the assessee has been guilty of concealment of income.
- (v) Claims for deduction on the LIP are not allowed and that too without giving any reasons.
- (vi) While making the additions for inadequate personal drawings, the Assessing Officers do not care to give an analysis of what the personal expenses of the assessee should be, to justify additions on this score.
- (vii) In dealing with bad debts, the Assessing Officers adopt unrealistic approach even when the amounts are comparatively small and the claim does not appear to be suspicious or *malafide*.

3.7 The assessment order must necessarily contain the following:

- (i) (a) The facts regarding initiation of search in cases covered u/s 153A of the Act, or (b) details of seized material belonging to other persons and recording of satisfaction in the cases falling u/s 153C of the Act, as the case may be, must duly be recorded in the assessment order.
- (ii) Factum of issuance and service of notice u/s 143(2) along with dates must be recorded in the assessment order.
- (iii) Clear reference should be given to the seized material such as annexure Nos., premises where the documents were seized, etc. If such material is of vital importance, its copies should be made part of the assessment order by including it as an annexure or scanned into the body of the assessment order.
- (iv) Proper mentioning of charging of interest under various sections of the Act.

3.8 The recording of satisfaction of 'concealment' is a must for initiation of penalty proceedings. The assumption of jurisdiction to initiate penalty proceeding is only after satisfaction regarding concealment is arrived at during the course of assessment proceedings. This satisfaction, therefore, must be brought out clearly in the assessment order. This would help counter the view that merely because the penalty proceedings have been initiated, it cannot be assumed that such a satisfaction was arrived at, in the absence of the same being spelt out by the order of the assessing authority (*CIT v. Ram Commercial Enterprises Ltd.* 246 ITR 568). This would also help identify the concealed income in the assessment order itself. Satisfaction must be similarly recorded for other penalty proceedings.

3.9 If any statutory approval has been obtained by the AO, the same should be indicated in the main body of the order. The AO should also ensure that at the final stage of computation of income, all the issues mentioned in the assessment order are covered in the computation.

3.10 It would be advisable for the AO to consult his higher authorities while making large additions.

#### 4. Post Assessment Action

4.1 Cases with potential prosecution angle should be identified. While prosecution for technical matters should be launched as early as possible, in cases of concealment of income, proper watch may be kept on progress of appellate proceedings and prosecution should be launched at the earliest possible. It may be noted that prosecution proceedings can be launched even before the finalization of the assessment proceedings and can be taken up independently of the assessment proceedings. Even if the group cases qualify for decentralization as per present guidelines, cases having prosecution potential should be identified separately, and excluded from the proposed list for decentralization giving clear reasons for the same.

4.2 A paper book containing copy of the seized material, in addition to that annexed to or scanned into the assessment order, relied upon by the Assessing Officer, should also be prepared along with the passing of assessment order for submission to appellate authorities/ITAT where it is apprehended that the assessee will go in appeal or to the Settlement Commission. This exercise also helps in identification of the seized material which can be released to the assessee.

4.3 On completion of assessment proceedings, immediate action should be taken for retention of books, as per law, where considered necessary. Books of accounts not used in assessment and having no investigation ramification can be considered for release with the approval of the CIT. While sending recommendations for release of books/documents the following must be ensured:

- (i) Audit (Internal & Revenue) of the cases are completed.
- (ii) No action u/s 263/145/154 is pending.
- (iii) No set aside assessment is pending.
- (iv) No external agency like CBI/ED/DRI etc. has requisitioned the seized material. If there is a likelihood of such requisition in future, it must be indicated whether a reference has been made to them.
- (v) Prosecution has not been launched nor is proposed.

4.4 Often seized assets are released against a bank guarantee furnished by the assessee. The bank guarantee has limited validity and needs to be renewed from time to time. A register should be maintained for the purpose, indicating the validity of the bank guarantee, to ensure proper renewal.

4.5 Cash deposited in the PD Account should be applied and adjusted in accordance with Board's instruction No. 11/2006 dated 1.12.2006.

4.6 A register has been prescribed in the Manual of Office Procedure, Volume-II, (Technical) issued by the Directorate of Income Tax (O&MS) in 2003 at page 40 indicating the report and registers that are required to be sent to or maintained by the Range Heads. This register is to be maintained in all Central charges. In view of the changes in the Act, a revised format is given as '*Annexure-1*'.

5. The DGsIT(Inv.)/CCsIT (Central) should hold seminars at the beginning of the calender year for orienting the Assessing Officers with the guidelines and also to discuss various issues relating to search and seizure assessments.

6. These guidelines may be brought to the notice of all Commissioners of Income Tax, Range Heads and Assessing Officers handling assessments of search and seizure cases.

Sd/-

(Vikram Sahay)

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Telefax: 23093902

Copy to:

1. Chairman, CBDT
2. All Members, CBDT
3. All Joint Secretaries/Commissioners of Income Tax in CBDT
4. All Directors/Deputy Secretaries/Under Secretaries in CBDT
5. DGIT (Admn.)/DGIT (Training)
6. Guard File

*ANNEXURE 'A-1'*

1. Range Addl./JCIT should also maintain a register for each search & seizure case incorporating the following details:—

- i. Name of the assessee
- ii. Date of initiation and completion of search
- iii. Whether case covered by section 153A/153C/148
- iv. Seizure made with break up
- v. Disclosure if any u/s. 132(4)
- vi. Date of passing orders for centralization
- vii. Date of receipt of appraisal report
- viii. Date of receipt of seized records including copies of warrants
- ix. Date of application, if any received for inspection and date on which inspection actually allowed
- x. Date of issue of notice u/s 153A/153C/148
- xi. Date of filing of return for assessment
- xii. Income disclosed in return
- xiii. Details of tax paid on income disclosed in return
- xiv. Adjustment from P.D. accounts, if any, against tax on income disclosed in return
- xv. Date of Bank guarantee, if any, date of expiry and date of renewal thereof
- xvi. Date of application, if any, from the assessee making a claim that seized assets or parts thereof are explained
- xvii. Details and date of decision on (xvi) above
- xviii. Date of first notice to take up assessment proceedings and also details subsequent notice/questionnaire/hearing etc.
- xix. Date(s) of hearing before Addl./JCIT before issue of directions u/s 144A. wherever resorted to.
- xx. Assessed income and date of order
- xxi. Tax liability on assessed income
- xxii. Details of adjustment from PD account, after completion of assessment with date

xxiii. Whether penalty has been initiated and details of penalty, if any, levied

xxiv. Whether case processed for launching prosecution and details of prosecution, if any launched.

2. CIT and DGIT/CCIT should inspect this register every three months/six months and record their comments therein.

### **Recommendation**

Consequent to restructuring, the income Tax 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 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 reveals that the tax revenue estimated to accrue during the post-restructuring period did not actually materialize. 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 implantation of the restructuring scheme as such and was attributable more to facts 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.

[Sl. No. 16 of Appendix II, Para 167 Action taken 29th Report of the PAC  
(14th Lok Sabha)]

### **Action Taken**

It would not be correct to conclude that requisite contribution to revenue, as envisaged in the restructuring proposal, has not been made. As far as the reduction in the burden of interest on refund is concerned, in spite of increase in number of refunds, in terms of number and value, it has substantially come down from Rs. 6,286.07 crore in 2002-03 to Rs. 4,701.16 crore in 2003-04 and further down to Rs. 3,865.99 crore in 2004-05, which compares extremely favourably with the projected reduction of Rs. 350 crore per annum.

The contribution made to the defined objectives of restructuring can be evaluated on the basis of various concrete parameters including growth rate of tax collections, quantum of recovery from arrears, tax GDP ratio, cost of collection etc. Judging by these parameters, the following has been the extent of progress made since the restructuring of the Department in 2001-02:—



- (i) there has been an increase of 137% in the collection of direct taxes from 2001-02 to 2005-06 at an average annual growth of 24% as against average growth rate of 18% between 1990-91 and 2000-01. It has happened for the first time that direct tax collections have increased at a rate above 20% for four consecutive years. In 2006-07, till December 2006, an amount of Rs. 1,44,286 crore has been collected which is 41.82% higher than the collections for the corresponding period of last year;
- (ii) the direct tax-GDP ratio has increased from 3.02% in 2001-02 to 4.7% in 2005-06 (four years' time) as compared to increase from 2.10% in 1990-91 to 3.23% in 2000-01 (in 11 years);
- (iii) there has been a significant increase in the amount of recovery from arrears. As compared to the recovery of Rs. 3,930 crore made in 2001-02, recoveries amounting to Rs. 7,084 crore and Rs. 8,064 were made in 2004-05 and 2005-06, respectively;
- (iv) collection out of current demand, which was Rs. 4,326 crore in 2001-02 has increased to Rs. 15,632 crore in 2004-05 and Rs. 16,389 crore in 2005-06;
- (v) the cost of collection of direct taxes has drastically come down from 1.36 paise per rupee collected in 2000-01 to 0.74 paise per rupee collected in 2005-06;
- (vi) comprehensive computerization of the Income Tax Department has been undertaken with a view to facilitating electronic delivery of taxpayers services, augmenting Departmental computer infrastructure, and setting up of Tax Information Network (TIN); and
- (vii) there has also been progress in various areas including taxpayers service, level of use of technology in work, higher morale of the work-force, development of core-competence, which have directly or indirectly resulted from restructuring of the Department.

It is not feasible to isolate the growth in revenue attributable to restructuring alone. No mechanism to monitor and assess progress in various areas resulting exclusively from restructuring is practicable to be devised, as the growth and progress in an organization is a result of an intricate inter-play of several factors and it is not feasible to ascertain the segregated effect of each such factor through any model or formula.

(Ministry of Finance/Department of Revenue O.M.F. No. 240/6/2006-A& PAC-II  
dt. 9.2.07)

## **CHAPTER IV**

### **OBSERVATIONS/RECOMMENDATIONS IN RESPECT OF WHICH REPLIES OF GOVERNMENT HAVE NOT BEEN ACCEPTED BY THE COMMITTEE AND WHICH REQUIRE REITERATION**

#### **Recommendation**

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 in 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. 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 be apprised 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 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 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 assessment” post restructuring.

[Sl. No. 7 of Appendix II, Para 158 of the 29th Report of the PAC  
(14th Lok Sabha)]

#### **Action Taken by the Government**

The procedure for selection of cases for scrutiny of cases has undergone major changes after restructuring. Selection of cases is made through the Computer Assisted Selection of Scrutiny Scheme (CASS) at the stations on AST network, and manually at other stations, on the basis of specified parameters laid down by the Board each year alongwith the Action Plan. As the selection of cases depends upon satisfaction of requisite criteria, the number of cases selected for scrutiny may vary each year. Efforts are, however, continuing to enlarge the scope of scrutiny assessments and cover a larger number of cases by modifications in the parameters for selection and use of Annual Information Return for selection of cases.

The data of scrutiny assessments completed during the year, number of cases where appeals were filed and number of appeals decided in favour of the Department in respect of the cases selected for scrutiny in the respective individual years is not maintained. Rather, the data of progressive scrutiny assessments completed, total number of appeals filed/pending and progressive number of appeals decided is maintained. The data of scrutiny assessments completed during the year and the appeals filed and disposed in respect of these scrutiny assessments can not be correlated on a case to case basis for every year. The Department's monthly statistics states the quantum of revenue locked up in appeals every year *vis-a-vis* the total demand raised during the year and the total demand outstanding at the end of the year. The data regarding assessments is also maintained in absolute terms & not on a case to case basis of scrutiny assessments completed in a particular year. Such data can be available once all assessment processes, including the processes in the appellate jurisdiction, are done on system in a specified software. As such, it is not possible to provide these statistics.

(Ministry of Finance/Department of Revenue O.M.F. No. 240/6/2006-A&PAC-II  
dt. 9.2.07]

#### **Recommendation**

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 ‘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 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.

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.

[Sl. No. 17 of Appendix II, Para 168 of the 29th Report of the PAC  
(14th Lok Sabha)]

#### **Action Taken**

Income tax return forms are assessment year specific and therefore, require to be notified separately for each assessment year. Return forms are notified by the Government keeping in view the legislative changes, feedback from the public and the need for computerization.

Recognizing the need to simplify the tax returns, the Government in 1998, introduced a one-page return Form No. 2D also known as 'Saral'. This form was made applicable to all non-corporate taxpayers and it required them to furnish information relating to their income and tax liability in a summary manner. All underlying calculations relating to income and tax liability were required to be furnished as separate annexures which invariably ran into several pages. The annexures generally related to computation of business income, capital gains and house properties. Over time, it came to be recognized that the Saral Form requires the taxpayer to have a good knowledge of the tax law so as to do the underlying calculations correctly without any guidance. In practice, this was not so and taxpayers had to necessarily seek assistance of experts/professionals. Therefore, in May, 2003 the Government also introduced a new one-page Form No. 2E (*i.e.* Naya Saral). This Form can be

used by salaried taxpayers not having business income, capital gains or agricultural income. Further this form also provided for underlying calculation of income from house property and other sources.

However, these underlying calculations were accommodated in the one-page return by substantially reducing the size of the boxes, the font size of the matter and insertion of multiple columns. Since the space provided for filling out the details was inadequate, the new Form No. 2E also failed to serve its intended objective. Taxpayers continued to provide separate attachments in respect of computation of the income. The tax benefits available to taxpayers under the tax law were also not fully reflected in Form No. 2E. Further, for expeditious issue of refunds particularly to salaried class, the Government introduced a new system of directly crediting the refund to the taxpayers's bank account. A look at the Form No. 2E would show that there is very limited space for furnishing particulars of bank account. Accordingly, it was considered necessary to review the design of Form No. 2E so as to overcome these difficulties and also adapt the Form to the needs of Computerization.

Accordingly, Government notified a new Income-tax return Form No. 2F on 1st June, 2006. However, to allow sufficient time to taxpayers for familiarizing with the new Form No. 2F, the old Form No. 2E was allowed to continue up to 31.07.2006.

The new Form No. 2F is a four page expanded version of Form No. 2E (Naya Saral) providing sufficient space to fill out the details. No Annexures are required to be attached with it. All details for tax payment and TDS are captured on page four of the Form. It also provides work sheets by way of Schedules to enable taxpayers to fill out the columns even without knowledge of the tax law. Detailed instructions, wherever necessary, have also been provided for guidance and assistance so as to make it user-friendly. The new Form is also fully compatible with electronic filling. It is optional for the taxpayer to file his/her return for assessment year 2006-07 in Form No. 2F.

Schedule 5 of the new Form relates to the cash-flow statement. It elicits summarized information on the annual incoming on and outgoings. The taxpayer is required to furnish only the lumpsum amount relating to his inflow and outflow. Even if a taxpayer chooses to file his return in Form No. 2F, he still has the option of not filling out the cash-flow statement in Schedule 5. Later, cash flow statement has also been incorporated in Form No. 2 and Form No. 3. However, in these forms also, it is optional to fill out the cash flow statement.

In the recent past the enforcement strategy of the Income-tax Department has shifted from an intrusive investigation technique to the use of non-intrusive methods for developing a modern taxpayers' information system. One of the significant measures in this respect was the establishment of the Taxpayer Information Network (TIN) in January 2004 to manage the growing volume of information and undertake extensive verification. This initiative received an impetus with the operationalization of information collection through the Annual Information Returns (AIR) in December, 2004. Since then, the Department has received information of about 16,84,709 transactions involving Rs. 16,39,024 crore for the financial year 2005-06. This volume will further increase with the expansion in the scope of AIR. In order to increase the deterrence effect of enforcement, it is necessary to undertake verification of this

information. Towards this objective, the Department had to issue a large number of letters to taxpayers. Such a verification exercise is not only tedious, the cost, material and human, would substantially outweigh the benefits.

Accordingly, it was considered necessary to design a risk management strategy which would maximize the benefits of such an exercise. It was, therefore, considered necessary to obtain essential information of annual inflows and outflows (cash flow statement) from the taxpayer. This will enable the Department to identify only such cases for intensive investigation where the probability of detection is extremely high. This will considerably reduce the compliance burden of taxpayers and also enhance the effectiveness of the tax administration leading to higher revenues.

A perusal of the Form would show that, unlike in other forms, most entries in Form No. 2F are cross-referenced to instructions or to worksheets (*i.e.*, Schedules). Therefore, filling out this new form should be a simple exercise.

Besides, it is to be mentioned that for small and marginal taxpayers, a return form serves as a source of information about the tax law. Therefore, it is necessary to design the form so as to create awareness amongst the taxpayers of their rights and obligations without imposing undue compliance burden. The new form intends to serve this objective. As indicated earlier, the form provides sufficient space and necessary worksheets. In fact, the information compressed in one page in Form No. 2E is now spread over two and three quarter pages. Similarly, page 4 of the new form substituted the various TDS certificates and other proofs required to be enclosed.

Further for filling out the Cash Flow Statement, a taxpayer is not required to maintain detailed accounts of their inflow and outflow (expenditure). A perusal of Schedule 5 seeking cash flow statement would show that a taxpayer is not required to fill out the details of each items of inflow or outflow. It requires him to fill out only the total of the amounts. As we all know, the aggregate of cash/bank balance at the beginning of the year and the incomings during the year must always match the aggregate of the outgoings and the cash/bank balance at the end of the year. Since the incomings during the year and the cash/bank balance both at the beginning and at the end of the year are known to all taxpayers, the total outgoings can be easily derived. Further, the breakup of the total outgoings into the three categories, *viz.*, (i) investment/expenditure in respect of which deduction is claimed under Chapter VI-A, (ii) other investments like immovable property, vehicles, bonds, Jewellery, shares, units and other financial instruments, and (iii) other outgoings (including household expenses), is also not difficult to furnish. The amounts relating to the first two categories are known to all taxpayers since these are lumpy investments supported by underlying documentations. Therefore, the third category is a residual amount and can be easily derived. The cash-flow statement does not require any extra details or books of accounts to be maintained on the part of the salaried taxpayer.

Thus, the new form 2F strikes an appropriate balance between compliance burden, the information necessary for enforcement, needs of computerization and taxpayer education, and intends to help the honest taxpayers.

(Ministry of Finance/Department of Revenue O.M.F. No. 240/6/2006-A&PAC-II  
dt. 9-2-07)

**CHAPTER V**  
OBSERVATIONS/RECOMMENDATIONS IN RESPECT OF WHICH  
GOVERNMENT HAVE FURNISHED INTERIM REPLIES

—NIL—

NEW DELHI;  
19 April, 2007  

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29 Chaitra, 1929 (Saka)

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

## PART II

### MINUTES OF THE TWENTY-FIRST SITTING OF THE PUBLIC ACCOUNTS COMMITTEE (2006-2007) HELD ON 19TH APRIL, 2007

The Committee sat from 1600 hrs. to 1630 hrs. on 19th April, 2007 in Room No. "53", Parliament House, New Delhi.

#### PRESENT

Prof. Vijay Kumar Malhotra — *Chairman*

#### MEMBERS

#### *Lok Sabha*

2. Shri Khagen Das
3. Shri Raghunath Jha
4. Shri Bhartruhari Mahtab
5. Shri Rajiv Ranjan 'Lalan' Singh
6. Shri Kharabela Swain
7. Shri Tarit Baran Topdar

#### *Rajya Sabha*

8. Shri R.K. Dhawan
9. Shri Suresh Bhardwaj
10. Shri Prasanta Chatterjee
11. Dr. K. Malaisamy

#### SECRETARIAT

1. Shri S.K. Sharma — *Additional Secretary*
2. Shri A. Mukhopadhyay — *Joint Secretary*
3. Shri Brahm Dutt — *Director*
4. Shri M.K. Madhusudhan — *Deputy Secretary*
5. Shri Ramkumar Suryanarayanan — *Under Secretary*



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

- |                              |   |                                  |
|------------------------------|---|----------------------------------|
| 1. Shri P.K. Kataria         | — | Pr. Director of Audit (RC)       |
| 2. Shri Nand Kishore         | — | Pr. Director of Audit (AB)       |
| 3. Ms. Sudha Krishnan        | — | Pr. Director of Audit (DT)       |
| 4. Shri Jayanti Prasad       | — | Pr. Director of Audit (INDT)     |
| 5. Ms. Subhashini Srinivasan | — | Pr. Director of Audit (Railways) |

2. At the outset, the Chairman, PAC welcomed the Members to the sitting of the Committee. Thereafter the Committee took up for consideration the following draft Reports:—

(A) Draft original Reports on the following subjects:

- (i) Concession Meant for Small Scale Industries availed of by Large Scale Manufacturers;
- (ii) Allotment of land to Educational Institutions by Delhi Development Authority;
- (iii) Performance Audit of Sarva Shiksha Abhiyan (SSA).

(B) Draft Action Taken Reports on Action Taken by the Government on the following Reports:

- (i) 7th Report of PAC (14th Lok Sabha) relating to "All India Institute of Medical Sciences (AIIMS)";
- (ii) 21st Report of PAC (14th Lok Sabha) relating to "Excesses over Voted Grants and Charged Appropriations (2003-2004)";
- (iii) 24th Report of PAC (14th Lok Sabha) relating to "Kendriya Vidyalaya Sangathan";
- (iv) 29th Report of PAC (14th Lok Sabha) relating to "Status of improvement of efficiency through the 'Restructuring' of the Income Tax Department".

The Chairman invited suggestions of the Members on the Draft Reports. After discussing the contents of the draft Reports in brief, the Committee adopted the same.

3. The Committee authorised the Chairman to finalise these Reports in the light of verbal discussion and consequential changes arising out of factual verification by the Audit or otherwise and present the same to Parliament.

4. As the term of the Committee ends on 30th April, 2007, the Chairman apprised the Members of the work done by the Committee in their current term. He stated that during the present term, the Committee have finalized twenty Reports (11 Original and 9 Action Taken), out of which thirteen Reports have already been presented and the remaining seven will be presented in the current Session of Parliament. He expressed his thanks to all the Members for the co-operation extended by them in making this possible and hoped that this momentum would be carried through to the next Committee.

5. The Chairman specially expressed his thanks to the Members namely, Shri Magunta Sreenivasulu Reddy, Shri Madan Lal Sharma, Shri K.V. Thangkabalu and Shri R.K. Dhawan, for their co-operation and contribution in the successful working of the Committee. These Members will not be part of the Public Accounts Committee in the next term beginning from 1st May, 2007.

6. On behalf of the Committee, the Chairman placed on record their appreciation of the Officers/Staff of the Lok Sabha Secretariat attached with the Committee for their hard work and dedication in rendering Secretarial assistance to the Committee.

7. The Committee also expressed their thanks to the C&AG of India and his team for providing assistance to the Committee.

*The Committee then adjourned.*

## APPENDIX

### STATEMENT OF OBSERVATIONS AND RECOMMENDATIONS

Sl. No.	Para No.	Ministry/ Department	Observations/Recommendations
1	2	3	4
1.	8	Finance (Deptt. of Revenue)	<p>The Committee note that in compliance to their recommendation for re-evaluation of targets of scrutiny assessments to ensure coverage of larger number of cases under scrutiny in the post-restructuring phase, the Government, have merely stated that efforts are being made to enlarge the scope of scrutiny assessments and to cover a larger number of cases by virtue of modifications in the parameters for selection. The Committee find this response of the Ministry rather tepid. As the earlier efforts made by the Ministry in this regard during the pre-restructuring era have not yielded the desired results, post restructuring, the Committee would expect the Ministry of Finance (Department of Revenue) to direct their efforts in a more focused manner so that the results achieved could be determinable and verifiable with reference to the targets set for the purpose and the laid down objectives. The Department should have systems in place to monitor the results of their efforts to ensure that larger number of cases get covered under scrutiny assessment, both quantitatively and qualitatively, commensurate with the increasing number of assessees and their growing incomes. The Committee would like to be apprised of the specific measures initiated in this regard and the corresponding results achieved as an outcome thereof.</p> <p>Further, as regards the submission of year-wise details of scrutiny assessments completed during the year, number of cases where appeals were filed and number of appeals decided in favour of the Department, the Ministry have expressed their helplessness in providing these statistics, as the requisite data has not been maintained by them.</p>

1	2	3	4
			<p>According to them, such data can be made available only when all assessment processes, including the processes in the appellate jurisdiction, are done on system in a specified software. The Committee are surprised that the Ministry of Finance (Department of Revenue), even with such rapid advancements in Information Technology, have not succeeded in making any headway in maintaining statistics crucial to their performance. The Committee expect the Department to take up this issue seriously and make earnest and vigorous efforts to complete the requisite data-base at the earliest and apprise them of the desired particulars.</p>
2.	11	Finance (Deptt. of Revenue)	<p>The Committee note with satisfaction that in pursuance of their recommendation, the Ministry have fixed monthly disposal target of appeals for each Commissioner of Income Tax (CIT) at sixty units. The Committee, however, desire that besides fixing monthly targets for disposal of appeals, the Ministry should also initiate steps for augmenting the manpower strength as recommended by them earlier, to cope with the increasing workload. In addition to this, the Ministry should also prescribe a time schedule for strict compliance to facilitate expeditious disposal of appeals. The Committee hope that these measures will be effectively implemented and constantly monitored by the Ministry/Department so that shortfalls, if any, in the outcomes can be promptly addressed.</p>
3.	14	-do-	<p>The Committee are not impressed with the belaboured justification of the Government for the revision in the Income Tax return proforma (Saral Form) and the introduction of a new form in its place. The merits of the new form have been stated to be adequacy of space, non-requirement of Annexure, provision of worksheets by way of schedules and detailed instructions for guidance of filers. It also has a provision for a cash-flow-statement, considered as a harsh measure, which requires the filers to furnish information on the total inflow and outflow of funds in a year. According to the Ministry, the new Form 2F seeks to establish an appropriate balance between</p>

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compliance, the information necessary for enforcement and the needs for computerization and tax payer education. The Committee note that the Ministry of Finance (Department of Revenue) have been trying to formulate a risk management strategy for better tax enforcement by securing information on annual cash flows from the tax payers with a view to identifying specific cases for intensive investigation. The Committee, however, believe that such a well thought out strategy should be executed with greater clarity and sharper focus on the high-income groups and evasion-prone categories, while distinguishing and exempting those categories whose entire income is deductible for tax at source itself like the salaried class and other fixed income groups. The Committee, therefore, reiterate their considered view that any revision of tax return form should be made keeping this end in view and only if considered necessary for further simplification and rationalization of the process. The Form should be as simple and easy to fill and not deter tax payers or potential tax payers from filing returns at all. It should neither instill needless fear into their minds. In this context, the Committee would, urge the Government to reconsider and review the decision to introduce the provision for a cash flow statement to be filed along with the return.

The Committee would also expect the Income Tax Department to tone up their enforcement machinery for quick and effective processing of tax returns, their scrutiny and assessment; particular emphasis in this regard needs to be placed on tax refunds, which has been rather a weak area for the Department so far, warranting their urgent attention and greater flexibility. The Committee would await the Ministry's response on the results achieved on this front.

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6.	M/s. Central News Agency Pvt. Ltd., P-23, Connaught Circus, New Delhi-110001.	19.	M/s. Jaina Book Agency (India), 649-A Girgaum Road, opp. 2nd Dhobi Talao Lane, Mumbai-400002.
7.	The Manager, M/s. Books India Corporation, Publishers, Importers & Exporters, L-27, Shastri Nagar, Delhi-110052.		<b>PONDICHERY</b>
8.	M/s. Sangam Book Depot, LG-3, Akarshan Bhawan, 23, Ansari Road, Darya Ganj, New Delhi-110002.	20.	Editor of Debates, Legislative Assembly Department, Pondicherry-605001.
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10.	M/s. Universal Book Traders, 80, Gokhale Market, Opp. New Courts, Delhi-110054 (T. No. 23911966)	21.	M/s M.M. Subscription Agencies, 123, Third Street, Tatabad, Coimbatore-641012.
		22.	M/s. C. Sitaraman & Co., 73/37, Royappettah High Road, Chennai-600014.
			<b>UTTAR PRADESH</b>
11.	M/s. Seth & Co., Room No. 31 D, Block-B, Delhi High Court, Sher Shah Road., New Delhi-110003.	23.	M/s Law Publishers, Sardar Patel Marg, P.B. No. 1077, Allahabad (U.P.)
12.	M/s. Dhanwantra Medical & Law House, 592, Lajpat Rai Market, Delhi-110006. (T. No. 23866768)	24.	M/s. Ram Advani Bookseller, Mayfair Building Hazrat Ganj, GPO Box No. 154, Lucknow-226001.

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