

FORTY-NINTH REPORT
STANDING COMMITTEE ON FINANCE
(2003)

(THIRTEENTH LOK SABHA)

MINISTRY OF FINANCE
(DEPARTMENT OF REVENUE)

DEMANDS FOR GRANTS
(2003-2004)

*[Action taken by the Government on the recommendations contained
in the Fortieth Report of the Standing Committee on Finance on
Demands for Grants (2003-2004) of the Ministry of Finance
(Department of Revenue)]*

*Presented to Lok Sabha on 9.12.2003.
Laid in Rajya Sabha on 9.12.2003.*



LOK SABHA SECRETARIAT
NEW DELHI

December, 2003/Agrahayana, 1925 (Saka)

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COMPOSITION OF STANDING COMMITTEE
ON FINANCE (2003)

Shri N. Janardhana Reddy—*Chairman*

MEMBERS

Lok Sabha

2. Shri Omar Abdullah
3. Shri Raashid Alvi
4. Shri Sudip Bandyopadhyay
5. Shri Surender Singh Barwala
6. Shri Ramesh Chennithala
7. Smt. Renuka Chowdhury
8. Dr. Daggubati Ramanaidu
9. Shri Kamal Nath
10. Shri Trilochan Kanungo
11. Shri Rattan Lal Kataria
12. Dr. C. Krishnan
13. Shri M.V.V.S. Murthi
14. Shri Sudarsana E.M. Natchiappan
15. Capt. Jai Narain Prasad Nishad
16. Shri Rupchand Pal
17. Shri Prabodh Panda
18. Shri Prakash Paranjpe
19. Shri Raj Narain Passi
20. Shri Sharad Pawar
21. Shri Pravin Rashtrapal
22. Shri Ramsinh Rathwa
23. Shri Chada Suresh Reddy
24. Shri S. Jaipal Reddy
25. Shri Jyotiraditya Madhavrao Scindia
26. Shri T.M. Selvaganapathi
27. Shri Lakshuman Seth
28. Shri Kirit Somaiya
29. Shri Kharabela Swain
- *30. Shri P.D. Elangovan

*Nominated to this Committee *vice* Shri Mukhtar Abbas Naqvi *w.e.f.* 26.3.2003.

Rajya Sabha

31. Dr. Manmohan Singh
32. Dr. T. Subbarami Reddy
33. Shri Murli Deora
34. Shri Prithviraj D. Chavan
35. Shri S.S. Ahluwalia
- *36. Shri Swaraj Kaushal
37. Shri M. Rajasekara Murthy
38. Dr. Biplab Dasgupta
39. Shri P. Prabhakar Reddy
40. Shri Amar Singh
41. Shri Prem Chand Gupta
42. Shri Palden Tsering Gyamtso
43. Shri Raj Kumar Dhoot
44. Shri Praful Patel
45. Shri Dinesh Trivedi

SECRETARIAT

1. Shri P.D.T. Achary — *Additional Secretary*
2. Dr. (Smt.) P.K. Sandhu — *Joint Secretary*
3. Shri R.K. Jain — *Deputy Secretary*
4. Shri S.B. Arora — *Under Secretary*

*Nominated to this Committee w.e.f. 7.4.2003.

INTRODUCTION

1. Chairman of the Standing Committee on Finance having been authorized by the Committee to submit the Report on their behalf present this Forty-ninth Report on action taken by Government on the recommendations contained in the Fortieth Report of the Committee (Thirteenth Lok Sabha) on Demands for Grants (2003-2004) of the Ministry of Finance (Department of Revenue).

2. The Fortieth Report was presented to Lok Sabha/laid in Rajya Sabha on 21 April, 2003. The Government furnished the written replies indicating action taken on all the recommendations on 8 September, 2003. The draft action taken report was considered and adopted by the Committee at their sitting held on 13 November, 2003.

3. An analysis of action taken by Government on the recommendations contained in the Fortieth Report (Thirteenth Lok Sabha) of the Committee is given in the Appendix.

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

NEW DELHI;
3 December, 2003
12 Agrahayana, 1925 (Saka)

N. JANARDHANA REDDY,
Chairman,
Standing Committee on Finance.

CHAPTER I

REPORT

This Report of the Standing Committee on Finance deals with Action taken by the Government on the recommendations contained in their Fortieth Report (Thirteenth Lok Sabha) on Demands for Grants (2003-2004) of the Ministry of Finance (Department of Revenue) which was presented to Lok Sabha and laid in Rajya Sabha on April 21, 2003.

2. Action Taken Notes have been received from the Government in respect of all the 15 recommendations contained in the Report. These have been categorised as follows:—

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

Sl. Nos. 1, 6, 7, 11, 12, 13, 14 and 15

(Chapter II-Total 8)

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

Sl. Nos. 3, 4, 8, 9 and 10

(Chapter III-Total 5)

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

Sl. Nos. 2 and 5

(Chapter IV-Total 2)

- (iv) Recommendation/Observation in respect of which final reply of the Government is still awaited:

Sl. Nos. Nil

(Chapter V-Total Nil)

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

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

A. Tax-GDP Ratio

Recommendation (Sl. No. 2, Para No. 16)

5. The Committee while reviewing the decreased tax-GDP ratio had noted with grave concern that Tax-GDP ratio in India was very low when compared not only with developed countries but many developing countries as well. They felt that the distortion was largely due to the fact that a large number of prospective tax-payers in the country were yet to be tapped and brought under the tax net. The Committee recommended that concerted efforts ought to be made by the Government in that regard.

6. The Ministry of Finance (Department of Revenue) in their action taken reply have stated as under:

“Indirect Taxes:

The tax/GDP ratio in respect of indirect taxes was 5.9 per cent during 1997-98. This ratio marginally declined to 5.5 percent in 1998-99 but increased to 5.8 percent in 1999-2000. Afterwards, it has gradually declined to 5.1 percent in 2001-2002. The main reasons for fall/stagnancy in tax/GDP ratio in respect of indirect taxes are as under:—

- Gradual reforms in structural changes of duty rates since 1990-91 in both customs and central excise.
- The number of basic customs duty rates *ad-valorem* was 7 during 1997-98, which was gradually reduced to 4 during 2001-2002. The peak basic rate which was 40% during 1997-98 was also reduced to 35% during 2001-02.
- The number of basic central excise duty rates *ad-valorem*, which was 10 during 1997-98, was reduced gradually to single rate of 16% CENVAT during 2001-02. The peak basic rate was also reduced to 16% CENVAT+16% SED during 2001-02 from 40% during 1997-98.
- Customs revenue has shown negative growth during 1997-98, 2000-01 & 2001-02. This is apparently due to sluggish growth in imports from petroleum as well as non-petroleum products during the said period. The sharp increase in duty foregone under various export promotion schemes including drawbacks was also a factor for less revenue realization from customs duties.

- The period 1997-98 to 2001-02 witnessed declaration in industrial growth compared to the previous years. Further, the rate of inflation of manufactured goods remained very low.
- The rates of excise duty also came down gradually on manufactured goods from a mean rate of 20% to 1997-98 to 16% by 2001-02.
- Central excise revenue comes mainly from manufacturing sector that comprises Non-SSI sectors. Increase in the SSI output does not necessarily result in proportionate increase in Central excise revenue because of the excise duty exemption available to SSI units. This was mainly due to the reason that the turnover limit for full excise exemption for SSI units was raised from Rs. 30 lakhs to Rs. 50 lakhs in 1998-99 and again to Rs. one crore in 2000-01. In view of these changes, the increase in production in the SSI sector did not result in commensurate increase in excise revenue."

7. As regard Direct Taxes the Ministry of Finance (Deptt. of Revenue) have stated:

"The Government is aware that the tax-GDP ratio in India is quite low. The Government also agrees that by expanding the tax base to cover a large number of prospective taxpayers and by gradually phasing out a number of exemptions and deductions, the tax-GDP ratio can be substantially improved. The Government would continue with its efforts towards widening and deepening of the tax-net, withdrawal of exemptions and deductions, simplification of the law and procedures, complete computerization and better taxpayers' service, which would result in better tax-GDP ratio in the years to come."

8. The Committee are concerned to point out that their repeated recommendation to improve the tax-GDP ratio has not yielded desired results. They take note of the Government's efforts in widening of tax base but find that the same have not yielded desired results by way of augmenting the revenue collections. They therefore reiterate that still a lot has to be done which is possible only if the concerted efforts are put in place for revenue collections (direct and indirect). The Committee further desire that the Government may apprise them about the steps taken in this regard on half yearly basis.

B. Tax Arrears

Recommendation (Sl. No. 5, Para No. 3)

9. The Committee were given to understand that more than 90% of the cases pertaining to tax arrears go against the Department which happened mainly due to inaccurate assessments made by the assessing officers resulting in putting infructuous and unnecessary burden on the exchequer on account of wastage of manpower, money and time. They had therefore, recommended that suitable action should be taken against the assessing officers who were responsible for such a situation. The Committee also desired that the information regarding number of cases disposed of by various appellate bodies, amount locked in and amount realised, during each of the last five years should be furnished to them for their consideration.

10. The reply of the Government on the above reads as under:

Total Demand and amount in Rs. Crore locked in

Year	As on	Total Demand	Amount in Crores locked in by				Demand Locked up by DIT claims/ Remittances/ Protective Assessments covered by 220 (2) 273A etc.	Amount not fallen due	Amount pending verification	Amount for which instalments granted	Net collectible Demand (Tax in Arrears)
			Courts	Settlement Commission	ITAT	By Income Tax Authorities					
1996-97	31.3.97	33585	3830	306	382	5723	—	—	—	—	—
1997-98	31.3.98	41230	1913	359	6464	5412	8368	9973	2346	574	5821
1998-99	31.3.99	44143	11819	604	1094	5756	6444	10809	2834	537	4244
1999-00	31.3.00	52970	1192	534	13285	10102	7219	12520	1644	693	5781
2000-01	31.3.01	56131	12239	655	1886	11661	11187	11170	2112	524	4706

11. The Committee are concerned to find a casual reply from the Government to their explicit recommendation wherein the Government were required to report about action taken against erring officials and furnish a data for the last five years but it has chosen only to furnish an incomplete data pertaining to the amount locked in appellate courts for the period not belonging to immediate five years. They reiterate their earlier recommendation and emphasise that appropriate action should be taken against those erring assessing officers who are responsible for making inaccurate assessments and Committee be apprised of the action taken in this regard, at the earliest.

CHAPTER II

RECOMMENDATIONS/OBSERVATIONS WHICH HAVE BEEN ACCEPTED BY THE GOVERNMENT

Recommendation (SL No. 1, Para No. 10)

"It is a matter of deep concern to the Committee that budget estimates were not being achieved in regard to the revenue collection of Income Tax, Corporation Tax, Central Excise & Customs Duty. They observed that revised reduced projections made at RE stage could be achieved only in 1999-00 in respect of corporation tax, customs and central excise whereas service tax projections made at RE stage could be achieved only in 1999-2000 and 2000-2001. In spite of that, the realisations were nowhere near the Budget Estimates. In their opinion, continuous shortfall in realisation is a grave matter, which calls for drastic measures. The Committee are not in agreement with the view of the department that taxes are paid voluntarily by the taxpayers and additional tax mobilisation efforts are not expected to result in very substantial amount of revenue and the responsibility of the Chief Commissioners of Income Tax in the area of revenue mobilisation is limited. They are of the view that such a serious matter is being taken by the Department casually and instead of making an in depth analysis of the reasons of such shortfall despite putting additional efforts the targets have become elusive. The Committee note that the Government have come forward with slew of measures in this regard like policy of minimizing the exemptions, broadening the tax base and strengthening the tax administration with greater emphasis on audit. They feel if these measures are pursued with due seriousness, there is no reason why the projections made would not be achieved. The Committee may be apprised of the progress in this regard from time-to-time."

Reply of the Government

Indirect Taxes:

Budget Estimates (BE) have not been achieved, in respect of customs and central excise since 1997-98. The BE of service tax has also not been achieved except for the years 1998-99 and 2000-01. The revenue collection from service tax has registered a growth of 4.8% and 18.8% over BE respectively during these years.

The Revised Estimates (RE), have also not been achieved except for the year 1999-00 in respect of customs. However, as regards central excise, the RE was achieved during the years 1997-98 and 1999-00. The RE in respect of service tax has been achieved during 1997-98 to 2000-01 but not in 2001-02.

Actual collection of revenue *vis-a-vis* the estimates/targets depends upon various factors. Revenue collection is a function of industrial growth, volume of imports, inflation rate and fluctuation in the prices of commodities. It is not always feasible to identify any specific reason for shortfall in the collection of revenue *vis-a-vis* targets. The estimates are based upon certain parameters which, if not achieved in the economy, would result in not achieving the estimates.

The revenue buoyancy of service tax is more than one and there is ample scope of bringing in more services in the service tax net. Ten new services were brought under the ambit of service tax in 2002-03. Further, seven new services are proposed to be included in 2003-04. Besides, three existing services were extended to new areas in 2003-04.

A number of steps are being taken to achieve the BE which include rationalization of tariff structure; review and withdrawal of tax exemptions, wherever necessary; plugging leakage of revenue through strengthening anti-smuggling and anti-evasion measures; monitoring and disseminating international prices of imported commodities; and simplification of tax collection procedures to improve tax compliance.

As regards shortfall in collections *vis-a-vis* BE, concerted efforts are being made to determine Budget Estimates realistically on the basis of a scientific analysis of the economic indices; and bring collections as close to the Budget Estimates as possible through legislative and administrative measures.

Direct Taxes:

The shortfall of Direct Tax collections from Revised Estimates has been in the range of 5-7% since 1990-91, which is reasonable in view of the fact that the Budget Estimates and the Revised Estimates are finalized quite early in the financial year and so certain amount of variation in the actual collections is unavoidable. Moreover, Direct tax collections depends upon a number of economic and non-economic factors including the growth of GDP, economic policies of the Government, international economic conditions, domestic and

international political conditions etc. Some of these factors are difficult to be predicted and so, the actual collections remained short of the estimates of the Government in the years under reference.

The phenomenon of continuous shortfall from the Budget Estimates is being treated with due seriousness by the Government. The problem is being addressed to from two sides:

- Steps are being taken to determine Budget Estimates realistically on the basis of a scientific analysis of the economic indices; and
- Concerted efforts are being made, both legislative and administrative, to make collections as close to the Budget Estimates as possible.

The Central Board of Direct Taxes is also taking professional advice from the National Institute of Public Finance and Policy in developing a scientific model for Revenue Forecasting. On the other hand, Budget Estimates are sought to be achieved by proper allocation of the target amongst the field units and closer monitoring of the collections made during the course of the year.

The Government would like to assure the Committee that the policy of minimization of exemptions, broadening of tax base and strengthening of tax administration would continue to be pursued with due seriousness so as to achieve the revenue projections.

Recommendation (SI. No. 6, Para No. 56)

The Committee are perturbed to note that there were only 62,027 assessees, having Income of more than Rs. 10 lakhs during 2001-02. Similarly, there were 12,43,335 individual assessees with Income more than Rs. 2 lakhs during 2001-02 in the country. In this regard, the Task Force on Direct Taxes headed by V.L. Kelkar made certain recommendations such as establishment of Tax Information Network (TIN) which will enhance the probability of identification of tax evaders and help in the detection of Income evaded, submission of annual information return relating to high value financial transactions. The Committee note that Government has accepted these recommendations and feel that these recommendations are of paramount importance and should be implemented forthwith. They also recommend that

upgradation work of the Regional Computer Centre and National Computer Centre servers of the Income Tax Department for processing of voluminous data relating to high value transactions should be taken-up immediately on priority basis."

Reply of the Government

Action has already been initiated for establishment of Tax Information Network. The Finance Act 2003 has introduced a new provision in the form of Section 285 BA in the Income-Tax Act providing of submission of Annual Information Returns in prescribed formats. CBDT has constituted a Committee for working out the details of the scheme relating to Annual Information Returns. Separate action has also been initiated to host the data relating to Tax Information Network at the data centre of M/s National Securities Depository Ltd. (NSDL) as recommended in the report of Task Force on Direct Taxes. Financial sanction has been received for upgradation of the servers at National Computer Centre and Regional Computer Centre. An Empowered Committee has been set up by the Government for overseeing the implementation of the plan relating to augmentation of computer infrastructure in the Income-Tax Department.

Recommendation (Sl. No. 7, Para No. 57)

"The Committee note that the Expert Group set up on Service Tax and the Task Force on indirect Taxes have made some useful recommendations in regard to better administration of service tax and voluntary tax compliance such as a separate self-contained Act on service tax, eventual integration of tax on services with the Central Excise duties, administration of service tax as first e-tax of the country, collection of service tax in a comprehensive manner with the exclusion of few services. The Committee expect the Government to expedite implementation of these proposals immediately and submit action taken thereon to the Committee. In regard to administration of Service Tax as first e-tax of the country, the Committee have been informed that filing of service tax return ST-3 with online web-based connectivity with assesseees is going to be implemented for select services from April 2003. The Committee recommend that this facility should be extended to all services under the Service Tax net within a definite period.

Reply of the Government

For better administration of service tax and voluntarily compliance, the Expert Group on Service Tax and the Task Force on Indirect Taxes have made recommendations such as:

- (i) A separate self contained Act on Service Tax.
- (ii) Eventual integration of tax on services with the Central Excise duties.
- (iii) Administration of Service Tax as e-tax.

The action taken on these recommendations are as under:

(i) A separate self contained Act on Service Tax

This recommendation has been accepted in principle and it is now being proposed to have an integrated comprehensive Act for goods and services.

(ii) Eventual integration of tax on services with the Central Excise duties

Enabling provisions have been made in the Finance Act, 2003-04. Section 94 (2) (eee) introduced in the Finance Act, 1994 *vide* Section 159 of the Finance Act, 2003-04, provides:—

“(eee) the credit of service tax paid on the services consumed or duties paid or deemed to have been paid on goods used for providing taxable service”.

Further, the Central Government has, *vide* Notification No. 5/2003-ST dated 14th June 2003, provided for the credit facility in respect of the services consumed for providing the output services.

(iii) Administration of Service Tax as e-tax

On pilot basis, e-filing has been allowed in respect of selected services namely, Telegraph Service, Telephones, Life Insurance Services, Insurance Auxiliary Service, General Insurance Business, Stock Brokers, Advertising Agencies, Courier Services, Banking and Financial and Custom House Agents. After reviewing the success in such implementation, other services also would be extended the same facilities.

Recommendation (Sl. No. 11, Para No. 88)

"It is a matter of deep concern to the Committee that expenditure on CEGAT had gone up by about 100% whereas the number of cases disposed of by it came down by about 36% in 2001-02 as compared to 1996-97. Vacant posts of Members has been cited as a reason for the increase in pendency. The Committee fail to understand as to why for a considerable long period these posts were allowed to lie vacant. The Committee urge upon the Government to take expeditious steps to fill up the vacancies. The Committee note with satisfaction that CEGAT had constituted Circuit Benches in a few cities for quick disposal of cases. They expect that similar benches would be constituted in other parts of the country for the early disposal of cases in those areas."

Reply of the Government

The process of filling up of the posts of Members (CEGAT) is a long drawn one. The Selection Committee consists of a Judge of the Supreme Court of India, Revenue Secretary, Secretary, Ministry of Law and President, CEGAT.

The selection process in respect of four vacancies of Technical Members has since been completed and the offer of appointment has been issued to four officers.

The selection process for filling up of two posts of Member (Judicial) has also been taken up. As soon as the recommendations of the Select Committee are received, these will be submitted for approval of ACC through the Department of Personnel and Training.

Recommendation (Sl. No. 12, Para Nos. 92, 93)

"The Committee are deeply concerned to note that actual expenditure under this head is always higher than both the budgetary and revised estimates. They note that the austerity and economy instructions have been issued by Department of Expenditure from time-to-time but have continuously been ignored which has resulted in variations between RE and Actuals. The entire budgetary exercise thus goes haywire."

"The Committee were further informed that additional expenditure incurred in 2001-02 was on account of computerisation of the Department and to provide modern equipment like fax machines, photocopier machines and other infrastructural facilities. In the opinion of the Committee the expenditure on such items should have been envisaged at BE and RE stages but no efforts seem to have been made

by the Government in this regard. They, therefore, desire that Department should take action in anticipation and present realistic figures as far as possible."

Reply of the Government

The concerned Departments have again been asked that the economy and austerity instructions of the Department of Expenditure should be followed strictly and in no circumstances, the expenditure in the above object head should exceed the budgetary provisions.

Recommendation (Sl. No. 13, Para Nos. 97, 98)

"The Committee are perturbed to note that budgetary provisions for the purchase of residential flats at Bangalore were made continuously since 2000-01 only to be surrendered at the end of respective financial years. It was only in the year 2002-2003 that the proposal was finalised and an initial amount of Rs. 1.10 crore had been paid. The Committee do not appreciate this casual approach while undertaking budgetary exercise. In their view the Department should have visualised as to when the proposal was likely to be finalised and accordingly provisions should have been made."

"The Committee now expect that due care will be taken while making allocations in future."

Reply of the Government

The above recommendations have been noted for compliance.

Recommendation (Sl. No. 14, Para No. 106)

"Widening of tax base and enhancement of revenue collection would to a large extent depend on the rationalisation and simplification of tax regime. The Committee feel that rationalisation and simplification of taxes should be a continuous process. They take note of the measures proposed to be taken by the Department in 2003-04 but realise that a lot has to be done in this regard. A plethora of exemptions in the existing laws adds to the confusion. The Committee feel that tax regime should be such that it would require minimum help from outsiders such as advocates and chartered accountants. Hence, the Committee recommend in this regard that an expert group comprising tax experts and economists should be formed under the Department of Revenue to study, analyse and recommend various reforms in tax regime."

Reply of the Government

Indirect Taxes:

The general policy of the Government has been to rationalize the tax structure and to withdraw end-use or sector-specific customs/central excise duty exemptions, as far as possible.

A task force was constituted in September 2002 under the Chairmanship of Dr. V.K. Kelkar and consisting of tax experts and economists, with an objective to take advantage of information technology and bring the indirect tax system and procedures at par with the best international practices and thus, encourage compliance and reduce transaction costs. The task force, in its final recommendations submitted in December 2002—has made a number of suggestions for withdrawal of customs/central excise duties exemptions and for procedural simplifications. A number of steps have been initiated which would gradually bring down the need of the tax payer to seek help of tax practitioners, by simplification of income-tax returns; simplification of annual returns of deduction of tax at source; prompt issue of refunds; and computerisation of the processing of returns etc. In addition, the number of cases to be scrutinized has been limited to 2% of the total number of returns received.

Many of the recommendations made by the said Task Force have already been accepted as part of Budget 2003-04. The remaining recommendations will be examined as part of the continuous process of rationalization and simplification of tax structure.

Direct Taxes:

The Department have initiated a number of steps which would gradually bring down the need of the taxpayer to seek help of tax practitioners. To name a few, simplification of income-tax returns, simplification of annual returns of deduction of tax at source, prompt issuance of refunds and computerization of the processing of returns and other follow-up steps. In addition, the number of cases to be scrutinized has been limited to 2% of the total number of returns received. This single step would not require 98% of the taxpayers to run for help of Advocates and Chartered Accountants. The Task Force on Direct Taxes set up in September 2002 under the Chairmanship of Dr. V.L. Kelkar had gone into various aspects of rationalization and

simplification of the direct tax regime. This report of the Task Force submitted in December 2002 was processed in the course of the budgetary exercise for the budget of 2003. The reforms recommended by the Task Force in the area of rationalization and simplification of direct tax regime continue to remain the guiding spirit of the on-going process of rationalization and simplification.

Recommendation (Sl. No. 15, Para No. 107)

"As regards computerisation of various activities in the Department, the Committee hope that these will be completed shortly. This will go a long way in minimizing the interface between taxpayers and taxman. Hence, they want that computerisation should be completed at the earliest and progress in this regard may be reported to the Committee from time to time."

Reply of the Government

The current status relating to Computerisation programme in Income Tax Departments is as under:

1. Phase-I and Phase-II of the Computerisation Programme networking has been completed in 60 cities, and following computer infrastructure has been set up:

- A National Computer Centre and 36 other Centres are functional.
- Over 8000 PCs have been provided to different categories of users.
- Networking of offices in 60 cities completed in two phases.
- Nine application software for the core processes of department developed.
- Training has been imparted to over 32,000 of about 42,000 officials required to work on computers.

2. Perspective Plan 2002—05: In Phase-III of the programme, the network has to be extended to remaining cities where Income Tax Offices are located. The existing infrastructure also requires upgradation/augmentation. For the purpose, a Perspective Plan 2002—05 has been approved. Its basic components are as under:

- Extension of network to remaining stations.

- Providing PCs to new officers and staff of AOs.
- Upgrading/relocating older PCs.
- Consolidation of 36 Computer Centres with new high end Servers.
- Enhancement of application software.
- Automated Enterprise resource management, and security tools.

An Empowered Committee headed by Dr. Vijay Kelkar, Financial Advisor to Finance Minister has been set up for overseeing implementation of the plan.

CHAPTER III

RECOMMENDATIONS/OBSERVATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN VIEW OF THE GOVERNMENT'S REPLIES

Recommendation (Sl. No. 3, Para No. 29)

The Committee are shocked to learn that as on 30.12.2002 outstanding demands worth Rs. 51,090 crore were locked up in 3358 cases having outstanding demand of Rs. one crore and above. Out of this Rs. 42,652 crore was outstanding from 593 cases with outstanding demand of more than Rs. 10 crore and above. Another several thousand crores of rupees are locked up in thousand of other cases pending before various appellate bodies. However, the recoveries made by the Department have been far less and the outstanding demands have also been increasing. No serious attempt has been made by the Government to tackle this problem. The Committee express their deep anguish over this sorry state of affairs and desire that outstanding demand should be realised expeditiously. The cases pending before Supreme Court/High Courts need to be pursued and got decided expeditiously by filing early hearing applications wherever possible.

Reply of the Government

The following steps have been/are being taken up to reduce pendency of appeals before various Appellate Authorities:

- (i) Sec. 250(6A) of the Income Tax Act (inserted by the Finance Act 1999 with effect from 1.6.1999) provides that the Commissioner of Income Tax (Appeals) may, where it is possible, decide appeal within a period of one year from the end of the financial year in which the appeal is filed.
- (ii) The power of Commissioner of Income Tax (Appeals) to set aside the assessment order has been withdrawn *vide* Finance Act, 2001 with effect from 1.6.2002.
- (iii) Tax disputes with the Public Sector Undertakings (PSUs) are resolved by the Committee on Dispute in the Cabinet

Secretariat. Appeal by either party is pursued before ITAT only if the said Committee gives the clearance.

- (iv) Chief Commissioners of Income Tax/Commissioners of Income Tax make request to ITAT for early adjudication of High Demand appeals in suitable cases.
- (v) CBDT has taken concrete steps by appointing Standing Counsels/Special Counsels before various High Courts for effective representation of Departmental Appeals.
- (vi) The disposal of appeals by CIT(A) and ITAT is more than the inflow of appeals per year. It will result into reduction of time period for disposal of appeals filed.
- (vii) Setting up of a National Tax Tribunal is under consideration of the Government.

Recommendation (SI. No. 4, Para No. 30)

The Committee note that creation of 82 posts of Commissioner of Income Tax (Appeals) [CIT (A)] has almost doubled the number of appeals disposed of during the period of one year starting from 31.1.2002. The Committee have been informed that a monthly quota of 60 units has been fixed for disposal by CIT (Appeals). The Committee feel that the monthly quota of appeals disposed of by CIT (A)/C (A)/CC (A) should be reviewed and a suitable higher limit should be fixed.

Reply of the Government

The Central Board of Direct Taxes is closely monitoring the disposal of appeals by CIT(A). Powers are also delegated to the Chief Commissioners of Income Tax to re-distribute the work among the CIT(A) so that the high demand appeals can be disposed expeditiously. As a result of effective monitoring, pendency of appeals has come down from 105901 as on 31.3.2003, as compared to pendency of 152634 as on 31.1.2002. Moreover, at present, disposal of appeals per year is much more than the number of appeals filed per year. Considering the fact that CIT(A) is the first Appellate Authority and has to look into facts as well as legal issues involved in a case, the monthly Quota of 60 units is reasonable.

Recommendation (SI. No. 8, Para No. 66)

The Committee are concerned to note that despite tall claims made by the Income-Tax Department, more than 2.5 lakh valid PAN applications and 12 lakh core-deficiency cases are pending with the department for allotment of PAN. The Committee recommends that

special camps should be organised throughout the country to have one-to-one meeting with the assesseees to resolve core deficiencies and to allot PAN to valid applicants within 10 days from the date of filing the application.

Reply of the Government

(i) The comparative figures for allotment of PAN over last 3 years are as under:

Year	Total Applications pending at the beginning of the year	Applications received during the Year	Core-field deficiency cases including duplicate PAN	Valid PAN applications for allotment Col.1+Col.2 -Col.3	PAN allotted during the Year
1999-2000	5,856,456	1,566,577	1,408,924	6,014,109	5,066,981
2000-2001	2,356,052	1,727,875	1,384,272	2,699,655	2,300,218
2001-2002	1,783,709	2,847,610	1,302,795	3,328,524	2,678,764
2002-2003	1,952,555	5,536,180	1,260,432	6,228,303	5,874,623

(ii) Overall allotment of PAN has increased in financial year 2002-03 to 58.74 lakh as compared to 26.78 lakh in the preceding year.

(iii) Government has outsourced the work relating to receipt and data entry of PAN application forms, and printing of PAN cards to M/s UTI Investors Services Ltd. They have been asked to obtain ISO certification for their processes for ensuring effective and quick delivery of services relating to PAN to the taxpayers. It is expected that there would be significant improvement in the time taken for allotment of PAN once the systems set up by M/s UTI Investors Services Ltd. stabilizes.

Recommendation (Sl. No. 9, Para No. 79)

The Committee are deeply concerned to find that the pace of disposal of prosecution cases under FERA, 1973 is very slow and as many as 5443 prosecution cases under Sections 56 and 57, 13489 adjudication cases, penalties worth Rs. 169352 lakhs are still pending

under Foreign Exchange Regulation Act (FERA), 1973, which has already been repealed. They are pained to observe that sunset period of two years was provided under FERA to decide the pending cases but Department has failed to take effective steps in this regard. Expressing their dissatisfaction over this sorry state of affairs the Committee recommend that concerted efforts should be made to get all the pending cases disposed of in a specified period. For this purpose, practicability of establishing special courts should be worked out.

Reply of the Government

As regards the 5443 prosecution cases, which were pending as on 31.12.2002 and have been referred to in the Committee's recommendations, the number of pending prosecution cases as on 30.04.2003 is 5391. These cases are all pending before various courts. The Directorate of Enforcement has advised its Zonal/Sub-Zonal offices to pursue these cases with the Public Prosecutors/Standing Counsels for expediting their disposal. The progress is also being reviewed every month.

As regards the pending adjudication cases under the FERA, 1973, which have been referred to in the Committee's recommendations, the number has come down from 13829 as on 31.12.2002 to 12900 as on 30.04.2003. The Directorate has advised the Adjudicators to speed up the disposal of these cases. To expedite disposal, the Government has also appointed 37 additional Adjudicators.

As regards outstanding penalties worth Rs. 169352 lakh as on 31.12.2002, this amount includes a sum of Rs. 106766.70 lakh the recovery of which has been stayed by the Appellate Tribunal and the Courts. The recoverable penalty as on 30.12.2002, therefore, works out to Rs. 62585.30 lakh. Against this, the recoverable penalty as on 30.4.2003 is Rs. 65345.29 lakh. The increase is primarily on account of imposition of penalty during the intervening period.

In order to speed up the recovery of penalties, the Directorate of Enforcement has strengthened its Penalty Recovery Cell in its Head Office and is also in the process of strengthening the Penalty Recovery Cells in Zonal/Sub-Zonal offices. Besides, steps are being taken to liaise with the State Governments to recover the outstanding penalties as arrears of land revenue. Steps are also being taken to fill up the vacant posts of Deputy Directors and Assistant Directors.

The factual position regarding the sun-set period of two years (01.06.2000-31.5.2002) is that this period was provided in the FEMA, 1999 for the purpose of taking cognisance of pending cases of investigation under the FERA, 1973 *i.e.* for completing the investigations, issuing show-cause notices and for filing criminal complaints with the courts of law concerned.

Recommendation (Sl. No. 10, Para No. 80)

"The Committee find that though FEMA came into force *w.e.f.* 1.6.2000 yet in a short span of one and half year *i.e.* by the end of 2002, 4327 investigation cases and 349 adjudication cases piled up under it. The Committee feel that the pace of disposal of cases is relatively slow and they are of the view that serious efforts should be made by the Enforcement Directorate to speed up the process of adjudication. The Committee therefore, expect the Government to take suitable expeditious steps so as to dispose of all the pending cases in a time bound manner."

Reply of the Government

As regards the pendency of 4327 investigation cases on 31.12.2002, it is clarified that during the sun-set period, *i.e.*, 01.06.2000 to 31.05.2002, the officers of the Directorate were busy in finalising the old pending investigation cases pertaining to the FERA, because the new Act, *i.e.*, FEMA, 1999 came into existence from 01.06.2000 and provided the above-mentioned two-year sun-set period to take cognisance of the pending investigation under FERA, 1973 by issue of show cause notices and/or by filing complaints in the courts of law.

As regards the pending 349 adjudication cases under the FEMA, 1999 on 31.12.2002, it is clarified that under the FEMA, officers of the rank of Deputy Director and above only can take up cases for adjudication.

The Adjudicating Officers have, therefore, been advised to speed up the adjudication proceedings. Steps have also been initiated to fill up the vacant posts of Deputy Directors.

CHAPTER IV

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

Recommendation (Sl. No. 2, Para No. 16)

The Committee note with grave concern that Tax-GDP ratio in India is very low when compared not only with developed countries but many developing countries as well. They feel that this distortion is largely due to the fact that large number of prospective taxpayers in the country are yet to be tapped and brought under the tax net. Concerted efforts ought to be made by the Government in this regard.

Reply of the Government

Indirect Taxes:

The tax/GDP ratio in respect of indirect taxes was 5.9 per cent during 1997-98. This ratio marginally declined to 5.5 per cent in 1998-99 but increased to 5.8 per cent in 1999-00. Afterwards, it has gradually declined to 5.1 per cent in 2001-02. The main reasons for fall/stagnancy in tax/GDP ratio in respect of indirect taxes are as under:

- Gradual reforms in structural changes of duty rates since 1990-91 in both customs and central excise.
- The number of basic customs duty rates *ad-valorem* was 7 during 1997-98, which was gradually reduced to 4 during 2001-02. The peak basic rate which was 40% during 1997-98 was also reduced to 35% during 2001-02.
- The number of basic central excise duty rates *ad-valorem*, which was 10 during 1997-98, was reduced gradually to single rate of 16% CENVAT during 2001-02. The peak basic rate was also reduced to 16% CENVAT+16% SED during 2001-02 from 40% during 1997-98.
- Customs revenue has shown negative growth during 1997-98, 2000-01, & 2001-02. This is apparently due to

sluggish growth in imports from petroleum as well as non-petroleum products during the said period. The sharp increase in duty foregone under various export promotion schemes including drawbacks was also a factor for less revenue realisation from customs duties.

- The period 1997-98 to 2001-02 witnessed declaration in industrial growth compared to the previous years. Further, the rate of inflation of manufactured goods remained very low.
- The rates of excise duty also came down gradually on manufactured goods from a mean rate of 20% to 1997-98 to 16% by 2001-02.
- Central excise revenue comes mainly from manufacturing sector that comprises Non-SSI and SSI sectors. Increase in the SSI output does not necessarily result in proportionate increase in central excise revenue because of the excise duty exemption available to SSI units. This was mainly due to the reason that the turnover limit for full excise exemption for SSI units was raised from Rs. 30 lakhs to Rs. 50 lakhs in 1998-99 and again to Rs. one crore in 2000-01. In view of these changes, the increase in production in the SSI sector did not result in commensurate increase in excise revenue.

Direct Taxes:

The Government is aware that the tax-GDP ratio in India is quite low. The Government also agrees that by expanding the tax base to cover a large number of prospective taxpayers and by gradually phasing out a number of exemptions and deductions, the tax-GDP ratio can be substantially improved. The Government would continue with its efforts towards widening and deepening of the tax-net, withdrawal of exemptions and deductions, simplification of the law and procedures, complete computerization and better taxpayers' service, which would result in better tax-GDP ratio in the years to come.

Recommendation (SI. No. 5, Para No. 31)

The Committee note that more than 90% of the cases go against the Department which happens mainly due to inaccurate assessments

made by assessing officers resulting in putting infructuous and unnecessary burden on the exchequer on account of wastage of manpower, money and time. The Committee recommend that suitable action should be taken against the assessing officers who are responsible for such a situation. The Committee desire that the information regarding number of cases disposed of by various appellate bodies, amount locked in and amount realised, during each of the last five years should be furnished to them for their consideration.

Reply of the Government

The requisite information is given in Annexure 'A'.

ANNEXURE 'A'

Total Demand and Amount in Rs. Crore Locked-in

Year	As on	Total Demand	Amount in Crores locked in by				Demand Locked up by DIT claims/ Remittances/ Protective Assessments covered by 220 (2), 273A etc.	Amount not fallen due	Amount pending verification	Amount for which instalments granted	Net collectable Demand (Tax in Arrears)
			Courts	Settlement Commission	ITAT	By Income Tax Authorities					
1996-97	31.3.97	33585	3830	306	382	5723	—	—	—	—	
1997-98	31.3.98	41230	1913	359	6464	5412	8368	9973	2346	574	5821
1998-99	31.3.99	44143	11819	604	1094	5756	6444	10809	2834	537	4244
1999-00	31.3.00	52970	1192	534	13285	10102	7219	12520	1644	693	5781
2000-01	31.3.01	56131	12239	655	1886	11661	11187	11170	2112	524	4706

(F.No. 276/6/2003-IT)

CHAPTER V

**RECOMMENDATION/OBSERVATION IN RESPECT OF WHICH
FINAL REPLY OF THE GOVERNMENT IS STILL AWAITED**

Nil

New DELHI;
3 December, 2003

12 Agrahayana, 1925 (Saka)

N. JANARDHANA REDDY,
Chairman,
Standing Committee on Finance.

MINUTES OF THE TWENTY FIFTH SITTING OF STANDING
COMMITTEE ON FINANCE

The Committee sat on Thursday, 13 November, 2003 from 1100 to
1240 hours.

PRESENT

Shri. N. Janardhana Reddy — *Chairman*

MEMBERS

Lok Sabha

2. Shri Raashid Alvi
3. Shri Sudip Bandyopadhyay
4. Shri Ramesh Chennithala
5. Smt. Renuka Chowdhury
6. Shri Trilochan Kanungo
7. Shri Rattan Lal Kataria
8. Shri Sudarsana E.M. Natchiappan
9. Capt. Jai Narain Prasad Nishad
10. Shri Prabodh Panda
11. Shri Raj Narain Passi
12. Shri Chada Suresh Reddy
13. Shri Kirit Somaiya

Rajya Sabha

14. Shri Murli Deora
15. Shri Prithviraj D. Chavan
16. Shri S.S. Ahluwalia
17. Shri Swaraj Kaushal
18. Shri M. Rajasekara Murthy
19. Shri Prem Chand Gupta
20. Shri Palden Tsering Gyamtso
21. Shri Praful Patel
22. Shri Dinesh Trivedi

SECRETARIAT

1. Shri P.D.T. Achary — *Additional Secretary*
2. Shri R.K. Jain — *Deputy Secretary*

2. The Chairman, at the outset, welcomed the Members to the sitting of the Committee and requested them to consider the draft report on the Actuaries Bill, 2002 and the following action taken reports:—

- (i) Action taken report on Demands for Grants (2003-2004) of Ministry of Finance (Departments of Economic Affairs & Expenditure);
- (ii) Action taken report on Demands for Grants (2003-2004) of Ministry of Finance (Department of Revenue);
- (iii) Action taken report on Demands for Grants (2003-2004) of Ministry of Finance (Department of Company Affairs);
- (iv) Action taken report on Demands for Grants (2003-2004) of Ministry of Disinvestment;
- (v) Action taken report on Demands for Grants (2003-2004) of Ministry of Planning; and
- (vi) Action taken report on Demands for Grants (2003-2004) of Ministry of Statistics & Programme Implementation.

3. ** ** ** **

4. The Committee then took up for consideration the draft action taken report on Demands for Grants (2003-2004) of Ministry of Finance (Department of Revenue). The Committee after deliberation adopted the draft report with modifications/amendments as shown in the Annexure.

5. ** ** **

6. ** ** **

7. ** ** **

8. ** ** **

9. ** ** **

10. The Committee then authorised the Chairman to finalise the Reports in the light of the amendments/modifications suggested and also to make verbal and other consequential changes and present the reports to both the Houses of Parliament.

The Committee then adjourned.

ANNEXURE

[MODIFICATIONS/AMENDMENTS MADE BY STANDING COMMITTEE ON FINANCE IN THEIR DRAFT REPORT ON THE ACTION TAKEN REPORT ON DEMANDS FOR GRANTS (2003-04) OF THE MINISTRY OF FINANCE (DEPARTMENT OF REVENUE) AT THEIR SITTING HELD ON 13 NOVEMBER, 2003]

Page 4, Para 8

(i) Line 1,—

For **pained**

Substitute **concerned**

(ii) Line 3,—

Delete **They are perturbed to note that not to speak of developed countries, we are still lagging behind even the developing countries in this regard.**

Page 6, Para 11, line 1,—

For **pained**

Substitute **concerned**

APPENDIX

(Vide Para 3 of the Introduction)

ANALYSIS OF THE ACTION TAKEN BY GOVERNMENT ON THE RECOMMENDATIONS CONTAINED IN THE FORTIETH REPORT OF THE STANDING COMMITTEE ON FINANCE (THIRTEENTH LOK SABHA) ON DEMANDS FOR GRANTS (2003-2004) OF THE MINISTRY OF FINANCE (DEPARTMENT OF REVENUE)

	Total	% of Total
(i) Total number of recommendations	15	
(ii) Recommendations/observations which have been accepted by the Government (Vide Recommendations at Sl. Nos. 1, 6, 7, 11, 12, 13 and 14)	8	53.34
(iii) Recommendations/observations which the Committee do not desire to pursue in view of the Government's replies (Vide Recommendations at Sl. Nos. 3, 4, 8, 9 and 10)	5	33.33
(iv) Recommendations/observations in respect of which replies of the Government have not been accepted by the Committee (Vide Recommendations at Sl. Nos. 2 and 5)	2	13.33
(v) Recommendation/observation in respect of which final reply of the Government is still awaited (Nil)	0	0.00