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**STANDING COMMITTEE ON FINANCE
(2014-15)**

SIXTEENTH LOK SABHA

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

[Action taken by the Government on the recommendations contained in Third Report of the Standing Committee on Finance on 'Demands for Grants (2014-15) of the Ministry of Finance (Department of Revenue)]

SIXTEENTH REPORT



**LOK SABHA SECRETARIAT
NEW DELHI**

July, 2015, Sravana, 1937 (Saka)

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(DEPARTMENT OF REVENUE)**

[Action taken by the Government on the recommendations contained in Third Report of the Standing Committee on Finance on 'Demands for Grants (2014-15) of the Ministry of Finance (Department of Revenue)]

Presented to Lok Sabha on 31 July, 2015

Laid in Rajya Sabha on 31 July, 2015



**LOK SABHA SECRETARIAT
NEW DELHI**

July, 2015, Sravana, 1937 (Saka)

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'Demands for Grants (2014-15)

* *Not appended in the cyclostyled copy*

COMPOSITION OF STANDING COMMITTEE ON FINANCE – 2014-15

Dr. Veerappa Moily - Chairman

MEMBERS

LOK SABHA

2. Shri S.S. Ahluwalia
3. Shri Venkatesh Babu T.G.
4. Shri Sudip Bandyopadhyay
5. Shri Nishikant Dubey
6. Shri P.C. Gaddigoudar
7. Dr. Gopalakrishnan C.
8. Shri Shyama Charan Gupta
9. Shri Prataprao Jadhav
10. Shri Rattan Lal Kataria
11. Shri Bhartruhari Mahtab
12. Shri Prem Das Rai
13. Shri Rayapati Sambasiva Rao
14. Prof. Saugata Roy
15. Shri Jyotiraditya M. Scindia
16. Shri Gajendra Singh Sekhawat
17. Shri Gopal Shetty
18. Shri Anil Shirole
19. Shri Shivkumar Udasi*
20. Dr. Kiritbhai Solanki
21. Dr. Kirit Somaiya

RAJYA SABHA

22. Shri Naresh Agrawal
23. Shri Naresh Gujral
24. Shri A. Navaneethakrishnan
25. Shri Satish Chandra Misra**
26. Dr. Mahendra Prasad
27. Shri K.N. Balagopal***
28. Shri C.M. Ramesh
29. Shri Ajay Sancheti
30. Shri Digvijaya Singh
31. Dr. Manmohan Singh

SECRETARIAT

- | | | | |
|----|-----------------------------|---|---------------------|
| 1. | Smt. Abha Singh Yaduvanshi | - | Joint Secretary |
| 2. | Shri Ramkumar Suryanarayana | - | Additional Director |
| 3. | Shri Kulmohan Singh Arora | - | Deputy Secretary |

*Nominated w.e.f. 24.02.2015 vide Bulletin Part -II dated 24.02.2015 against the vacancy caused due to induction of Shri Jayant Sinha, MP to the Union Council of Ministers w.e.f. 09.11.2014.

**Nominated w.e.f. 08.01.2015 vide Bulletin Part -II dated 12.01.2015 against the vacancy caused by retirement of Shri Brajesh Pathak, MP from Rajya Sabha.

***Nominated w.e.f. 06.05.2015 vide Bulletin Part - II dated 07.05.2015 against the vacancy caused by retirement of Shri P. Rajeev, MP from Rajya Sabha.

INTRODUCTION

I, the Chairperson of the Standing Committee on Finance, having been authorized by the Committee, present this Sixteenth Report on action taken by Government on the Observations / Recommendations contained in the Third Report of the Committee (Sixteenth Lok Sabha) on "Demands for Grants (2014-15)" of the Ministry of Finance (Department of Revenue).

2. The Third Report was presented to Lok Sabha / laid on the table of Rajya Sabha on 16 December, 2014. The Action Taken Notes on the Recommendations were received from the Government *vide* their communication dated 08 April, 2015.

3. The Committee considered and adopted this Report at their sitting held on 16 July, 2015.

4. An analysis of the action taken by the Government on the recommendations contained in the Third Report of the Committee is given in the Appendix.

5. For facility of reference, the observations / recommendations of the Committee have been printed in bold in the body of the Report.

NEW DELHI
22 July, 2015
31 Ashadha, 1937 (Saka)

DR. M. VEERAPPA MOILY,
Chairperson,
Standing Committee on Finance.

CHAPTER – I

REPORT

This Report of the Standing Committee on Finance deals with action taken by Government on the recommendations/observations contained in their 3rd Report (Sixteenth Lok Sabha) on Demands for Grants (2014-15) of the Ministry of Finance (Department of Revenue) which was presented to Lok Sabha / Laid in Rajya Sabha on 16 December, 2014.

2. The Action Taken Notes have been received from the Government in respect of all the 11 recommendations contained in the Report. The Government have noted and accepted in principle almost all the recommendations of the Committee. These have been analyzed and categorized as follows:

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

Recommendation Nos. 1,2,3,5,6,7,8,9,10 and 11

(Total 10)
(Chapter- II)

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

Recommendation No. NIL

(Total NIL)
(Chapter- III)

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

Recommendation Nos. 4

(Total 1)
(Chapter -IV)

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

Recommendation No. NIL

(Total - NIL)
(Chapter- V)

3. The Committee desire that the replies to the observations/recommendations contained in Chapter-I may be furnished to them expeditiously.

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

Recommendation (Para No. 1)

Under utilization of allocated funds

5. The Committee noted with concern the persistent under-utilisation of allocated funds in respect of Demands No.42, 43, and 44 of the Ministry of Finance (Department of Revenue) during the last three years. The amount surrendered during the last three years in respect of Demand No.42 ranges between Rs.366.17 crore to Rs.8.096.39 crore. In respect of Demand No.43 from Rs.238.80 crore to Rs.644.86 crore and in respect of Demand No. 44 from Rs.95.81 crore to Rs.146.57 crore. The Committee were not convinced with the routine reply of the Ministry that the large amount was surrendered as no decision could be taken about providing CST Compensation to the States beyond 2011-12 and also due to non-finalisation/ non-clearance of some proposals for purchase of properties/ equipments/ vessels. In respect of the "Scheme for IT enablement of stamp & registration administrations of States/ UTs and for promoting 'e-stamping', the Ministry had sought funds without approval and, thereafter, entire budget amount had to be surrendered. Such a trend only indicated adhocism in the Ministry in respect of utilization of allocated funds. The Committee, therefore, recommended that the Ministry should devise a coherent mechanism for realistic budgetary formulation, followed by proper utilization of allocated funds through effective management and close monitoring. The Committee also desired that it is high time that mechanism for fixing accountability be developed at appropriate levels so that the budgetary exercise is not rendered infructuous by such persistent over-estimation followed by under-utilisation of varying degrees.

6. The Ministry in their action taken reply have stated as follows :

"It is submitted that budget provisions for CST compensation were made keeping in view the decision taken/ likely to be taken by the Government. The compensation to the States/UTs during these years could not be released as no consensus could be arrived at between the Empowered Committee of State Finance Ministers and the Central Government about implementation of GST and compensation to be provided to the States. It was expected that some decision would be taken during the course of the year. Hence, budget provision was made. However, once it was made clear that the CST compensation would not be released, the funds were surrendered. A strategy for payment of CST compensation to the States has now been decided, as recommended by the Empowered Committee, with the approval of the Cabinet, for the years 2010-11, 2011-12 and 2012-13. This amount is proposed to be released to the States, in phases, in the years 2014-15, 2015-16 and 2016-17.

The observations of the Committee have, however, been noted and it would be ensured that budget provisions are made only after the approval of all concerned are obtained. As regards surrender of funds during the last three years 2011-12, 2012-13 and 2013-14 under Grant Nos. 43 & 44, it is submitted that the same were primarily under the 'Capital Section' on account of various reasons as informed to the Standing Committee on Finance. It is stated that all the proposals of procurement of properties require coordination with different authorities i.e. land owing agencies, PWD, State Government, Municipal authorities etc. Therefore, some of such proposal are not materialized or get delayed. The funds for procurement of equipments/ vessels could not be utilized due to non-fulfillment of contractual agreement or late delivery, etc. Therefore, the savings were on account of various reasons that are beyond the control of Government. Moreover, these savings were already taken into account while finalizing the Revised Estimates for the relevant years. However, various Budgetary Authorities are being advised separately so that allocated funds are utilized properly".

7. Although the Department of Revenue have noted for compliance the recommendations of the Committee, they are not convinced with the routine explanation of the Department regarding surrender of funds in respect of Demand Nos. 42, 43 and 44 (now renumbered as Demand Nos. 43, 44 and 45) during the last three years. Surrendering of funds in respect of Demand Nos. 43, 44 and 45 have become an annual feature which clearly depicts that there is a recurrent flaw in the financial planning and management of funds in the Department of Revenue and the Committee have already pointed out this lacunae in their earlier Reports on Demands for Grants. Projection of unrealistic estimates and surrendering of scarce funds every year is not acceptable to the

Committee. The Committee, therefore, reiterate their earlier recommendation that the Department should devise a coherent mechanism for realistic budgetary formulation, followed by proper utilization of allocated funds through effective financial management and accountability should be fixed in this regard. The Committee desire to be kept abreast in the matter.

Recommendation (Para No. 3)

Tax-GDP Ratio

8. The Committee noted that budgetary target of taxes collection is set before the beginning of the relevant financial year on the basis of the GDP forecast and expected buoyancy in direct taxes. In 2011-12, the direct tax collection were 92.73% of the Budgetary Estimates and in 2012-13, the direct tax collection were 97.97%. In respect of indirect taxes, the actual tax collections were 98.64% in 2011-12 and 93.94% in 2012-13. In 2013-14, the direct tax collection were 97.97% of Budget Estimates, in respect of indirect taxes, it was 87.83%. The Committee noted that although some measures have been taken by the Government to augment tax collections in the country, tax buoyancy as such has not been commensurate with the growth in income and wealth. The Committee therefore desired that the Government should formulate a holistic policy to increase the tax-GDP ratio in the economy. Taxation of all taxable entities, transactions and services, and rationalisation of exemptions would pave the way for this purpose. At the enforcement level, a strict view should be taken of tax evasion.

9. The Ministry in their action taken reply have stated as follows :

"CBDT

The recommendations of the Committee have been duly noted by the Department for necessary action.

- A.** Measures taken by the Government to mobilize additional revenue and improve the tax-GDP ratio in the country are enumerated as under:-
- I. Legislative Measures:** Every year through the Finance Act, legislative measures are taken to increase the tax base and revenues. Some such measures taken in last three years are enumerated as under:

Major policy proposals in Union Budget 2014-15 [Finance (No. 2) Act, 2014]:

- ❖ Inclusion of investment linked deduction within the ambit of alternate minimum tax (AMT) after making adjustment for depreciation.
- ❖ Levy of dividend distribution tax on the gross amount instead of only the actual amount paid to shareholders.
- ❖ Tax deduction at source at the rate of 2 % levied on non-exempt payment of maturity amount over a specified threshold of Life Insurance Policies.

Major policy proposals in the Union Budget 2013-14 (Finance Act, 2013):

- ❖ Tax Deduction at Source at the rate of 1 % on payment for acquisition of immovable property (other than rural agricultural land) having value of Rs. 50 lakhs or more.
- ❖ Introduction of Commodities Transaction Tax on sale of commodity derivatives (other than agricultural commodities) at the rate of 0.01 %.
- ❖ Where the stamp duty value on transfer of immovable property held as stock in trade is greater than the sale consideration, the stamp duty value to be considered as full value of consideration for the purposes of computation of income.
- ❖ Levy of additional tax on company @ 20% on buyback of unlisted shares

Major policy proposals in the Union Budget 2012-13 (Finance Act, 2012):

- ❖ Introduction of Alternate Minimum Tax (AMT) at the rate of 18.5 % on persons (other than companies) claiming profit linked deductions;
- ❖ Introduction of compulsory reporting requirement in case of assets held abroad;
- ❖ Tax collection at source at the rate of 1 % on purchase in cash of bullion in excess of Rs.2 lakh and jewellery in excess of Rs. 5 lakh;
- ❖ Tax collection at source at the rate of 1 % on purchase of trading in coal, lignite and iron ore;
- ❖ Taxation of unexplained money, credits, investments, expenditures etc., at the highest rate of 30 % irrespective of slab of income.

II. Administrative measures:

The administrative and technological initiatives to augment revenue are as under:-

- ❖ Extensive use of technology is being made for collection of information without intrusive methods. Information technology tools are being developed for exhaustive collection of information and maintenance of data base.
- ❖ Data warehousing and business intelligence project has been undertaken for developing a comprehensive platform for effective utilization of information to enhance voluntary compliance and deter non-compliance.
- ❖ Centralized Processing Centre (Compliance management) is also proposed to be set up for handling resource intensive repeated tasks to increase efficiency.

- B.** Regarding strict action against the evasion, it is submitted that various initiatives have been undertaken with the express purpose of timely launching of prosecutions in deserving cases, timely compounding of petitions, streamlining the procedures and sensitizing the field authorities on taking strict enforcement actions. As a result, the number of prosecutions launched during the Financial year 2013-14 went up to 641 as against 283 in Financial Year 2012-13 registering a growth of 126.50%. Similarly the Department is taking various steps to re-align the processes and systems for dealing with search and seizure cases with a view to create credible deterrence through faster investigation leading to prosecutions in deserving cases.

CBEC

(i) Tax - GDP Ratio:

India's Tax-GDP ratio (based on central taxes) during the F.Y 2013-14 was nearly 10.0%, at current market prices, however the target (tax revenue target as per BE ,2014-15) for Tax-GDP ratio for 2014-15 is 10.6%. Higher buoyancy observed in tax collections during a financial year is a function of higher economic growth and tax policy initiatives. India's Tax-GDP ratio was highest at 11.9% during 2007-08, as the nominal GDP growth during 2007-08 was 16% and the standard tax rates were relatively high w.r.t Income tax(lower exemption limit), and Central Excise duty. Tax estimates based on buoyancy factor may turn out to be more realistic in the case of direct taxes than indirect taxes. This is because direct taxes are progressive in nature in comparison to indirect taxes. Further, as around 60% of Central Excise revenue is collected at specific rates (POL, Tobacco, Sugar, etc.), as opposed to ad valorem rates, inflation may not give rise to adequate buoyancy. Customs duty collections mainly depend upon the volume of dutiable

imports (the share of value of Crude Oil import is around 35% in total imports which attracts NIL duty), exchange rates of leading international currencies and international prices of imported goods.

Another reason for low tax-GDP ratio is that sectors of the economy, particularly in the unorganized sector, are kept out of tax net by way of exemptions. GDP includes the economic activities of unorganized/informal sectors falling under manufacturing and service categories, which may not be covered under the tax net. Non-taxation of agricultural and allied sectors, relatively higher threshold for small scale industries and fiscal concessions in the form of exemptions (revenue forgone in the case of exports) for socio-economic reasons is mainly attributable as reasons for low tax-GDP ratio in India.

In addition, in the recent years, there has been slow down in the economy, particularly the manufacturing sector. Therefore, for revival of certain sectors like automobile and consumer goods, which were affected severely by the slowdown, Government had to give stimulus package by way of reduction in the central excise duty on these goods.

(ii) Recent measures taken by the Government to broaden the tax base:

Numbers of steps have been taken to increase the tax-GDP ratio like widening the tax base by comprehensive taxation of all services (introduction of Negative List approach to taxation of services w.e.f 1st July 2012) and reduction of exemption in Central Excise and Customs wherever possible. The negative list has since then been pruned further in successive budgets and exemptions have been rationalized. Similarly, on the Central Excise side, exemption are reviewed continuously and where feasible these have been rationalized.

In order to improve compliance and further broaden the service tax base by bringing stop filers and non-filers within the tax net, a Voluntary compliance Encouragement Scheme (VCES) was proposed in the Budget exercise, 2013. The Scheme came into effect from 10th May, 2013. Under the scheme, one time amnesty by way of (i) waiver of interest and penalty; and (ii) immunity from prosecution, was extended to the stop filers, non-filers or non-registrants or service providers who have not disclosed true liability in the returns filed by them during the period from October 2007 to December 2012, provided they declare and pay the tax dues. The VCES scheme was open for the declarants till 31st December, 2013.

Besides, other measures taken to improve the compliance levels are mandatory e-filing and e-payment of taxes, high interest rates for delayed payment, extensive use of third party sources such as state VAT department, Income Tax etc. for compliance verification, taxpayer education and media campaign.

As regards enforcement, stringent penal provisions have been incorporated in the respective laws along with stricter provisions for prosecution etc. and provisions empowering the government to recover arrears".

10. The Committee note that to mobilize additional revenue and improve the tax-GDP ratio in the country the Government has initiated legislative, administrative and other measures. However, tax buoyancy, as such, has not been commensurate with the growth in income and wealth. The Committee, therefore, reiterate that it is high time the Government expands the existing narrow tax base in the country by using information technology, extensive use of third party data, bringing unorganised sector under tax net, rationalization of exemptions, comprehensive taxation of all services etc. Apart from broadening the tax base, stringent penal action should also be taken against wilful defaulters/ tax evaders. Strict enforcement is thus necessary for better compliance.

Recommendation (Para No. 4)

Tax Refunds and interest on Refunds

11. The Committee noted that the Department in respect of both the direct and indirect taxes have made large amount of tax refunds along with interest on refunds without parliamentary approval on the ground that since the excess tax and interest to be paid on the refund is a statutory non discretionary obligation of the Department, it cannot qualify as tax for the purposes of receipt under Article 266. It is only the tax duly chargeable which can form receipts for the purposes of Article, to which Article 114 applies. The Committee also note that Government is not contemplating to make explicit provision of estimates of expenditure on interest liability in tax refunds in the Central Budget.

The Committee were of the firm opinion that in terms of Article 266 of the Constitution, the Department has no legal authority to withdraw the 'interest' on excess tax collected and make refunds without getting it approved by Parliament. Since it is an appropriation from the Consolidated Fund of India in terms of Article 266 (3). The Committee also concur with the views of Public

Accounts Committee contained in their 66th Report (15th Lok Sabha) that there was no valid ground as to why the Department could not made broad estimates of expenditure on interest liability on tax refunds based on the past trends. The Committee, therefore, desire that in the interest of transparency and accountability, the Government should explicitly provide for interest liability of tax refunds in the Central Budget, which has been of the tune of Rs. 6876, Rs.10499 crore, Rs. 6486 crore and Rs.6666 crore respectively during the fiscals 2009-10, 2010-11, 2011-12 and 2012-13 respectively.

12. The Ministry in their Action taken reply stated as under :

CBDT

"It is submitted that classification of interest on refund of excess tax as reduction in revenue by the Ministry is in conformity with the Constitutional provisions as discussed in detail in earlier replies of the Ministry to the Hon'ble Committee on the said issue. Such treatment of interest on refund as reduction in revenue is compliant with the norms of transparency and accountability in all respects as the circumstances, manner and rate regarding interest on excess tax have been clearly laid out in Section 244A of the Income-tax Act 1961. The interest payment is fixed and automatic and there is no discretion available in law not to pay the same.

CBEC

Interest payment on refunds are payable by the CBEC under Section 11 BB of the Central Excise Act, 1944 and applicable for refund of Service Tax under provisions of Section 83 of the Finance Act, 1994 and Section 27A of the Customs Act, 1962 and therefore, the same is legislatively sanctioned under the Act. The current practice is that interest on refunds is accounted as part of refunds. This practice of treating interest on refunds as reduction in revenue has been consistently followed by CBEC. The practice followed is also similar to the practice being followed in CBDT, wherein the amount of interest is comparatively on much higher side.

13. The Committee are not convinced with the reply of the Government that classification of interest on refund on excess tax as reduction in revenue is in conformity with the constitutional provisions. The Committee find that every year, a large amount of tax is refunded alongwith interest in respect of both direct and indirect taxes having serious implications on revenue, which obviously warrants scrutiny by

Parliament. The Committee would, therefore, reiterate their recommendation that in the interest of transparency and accountability, the Government should especially provide for interest liability of tax refunds in the Central Budget.

Recommendation (Para No. 5)

Tax Arrears

14. The Committee was constrained to note huge pendency of tax arrears both in direct and indirect taxes, which is increasing year by year. In 2013-14 Rs. 5,80,325 were tax arrears for direct taxes and Rs. 1,09,681.47 crore for indirect taxes. During the year 2014-15, these arrears have spiraled to Rs. 6,75,431 for direct taxes and Rs. 1,49,128.56 crore for indirect taxes. The Committee further note that a substantial amount of arrears has been locked up in various courts/appellate fora. The Committee found that in many cases, lack of accountability of the assessing officer in raising unrealistic tax demands without accompanying responsibility for recovery has led to a situation of staggering tax arrears locked up in long winding disputes between the tax administration and taxpayers with a low proportion of recovery of tax. This has led to wastage of resources and inefficiency in collections. Thus, the Committee recommended that there is an urgent need for a time bound action plan for realizing tax arrears and for minimizing litigations. On a larger plane, emphasis should be laid on rationalization and simplification of rules and procedures, while ensuring that the Tax Department plays a non adversarial role vis. a vis. the honest taxpayer.

15. In their action taken reply, the Ministry have stated as under :

CBDT

- a) "Raising of demand and recovery of outstanding dues is a continuous process. In order to enhance recovery, steps including training, mentoring, monitoring and supervision by superior officers are taken by the Department to ensure that quality assessment orders are passed by the officers of the Department which can stand the test of appeals. The Central Action Plan 2014-15 has laid down detailed strategy for quality in assessment work. Best orders are periodically published and circulated to all the assessing officers for their knowledge and guidance. It is emphasized by the Board that during assessment, the assessing officer should gather all details about assets of the assessee so that effective recovery can be made after issue of notice of demand and there should be error free reporting of dossier demands. A number of steps are being taken by the Department to enhance recovery at post assessment stage. In order to maximize recovery of arrear demand, with the given shortage of officers and staff, a focussed approach has been adopted by the CBDT. Detailed strategies for Recovery are laid out in the Central Action Plan 2014-15 (as in the past) for the field authorities. Further, targets for cash collection out of arrear demand are fixed by the Board every year for field formations and its achievement is regularly monitored. The position of unrealized revenue is monitored regularly to ensure recovery. Cases of large demand are monitored at CBDT level on quarterly basis.
- b) The reason for rising arrear demand over last few years has been due to inclusion of demands related to various scam cases such as Hassan Ali Group (165665 cr.), B.C Dalal Group (14169 cr.), Ketan Parekh (3627.83 cr.) and Harshad Mehta Group (23189 cr.) etc. These cases are presently under legal proceedings under various Acts. Therefore, recovery in these cases by operation of Income Tax Act alone is not possible. Moreover, assets commensurate with the demand are also not available for recovery in these cases.
- c) The Cash collections out of arrear demand have been showing a steady growth as is evident from the table below:

| (Rs. in Cr.) | |
|-------------------------|---|
| Year | Cash collection out of arrear demand |
| 2009-10 | 11939 |
| 2010-11 | 12011 |
| 2011-12 | 19654 |
| 2012-13 | 23995 |
| 2013-14 | 33364 |
| 2014-15 (till Oct 2014) | 23652* |

(Source: CAP-I)

** As per latest figures available for Oct 2014, Rs. 23652 cr. has already been collected as against the target fixed at Rs. 41997 cr. The target is likely to be achieved/ exceeded by March, 2015.*

- d) A Standing Committee has been constituted in CBDT to deal with rising litigation with tax payers as well as with employees. The Committee

holds meeting once every two months to discuss litigious issues and probable solution.

- e) An institutional mechanism has been developed with a view to provide clarity on contentious legal issues, to promote consistency of approach on a given issue and to reduce litigation by way of formation of a Central Technical Committee (CTC) in the CBDT and Regional Technical Committee (RTC) at the local level. After extensive discussions on any subject, and after taking CBDT's approval, Departmental View is circulated amongst field officers to ensure uniformity in approach.
- f) At the CIT(A) level, additional posts have been sanctioned in the recent Cadre restructuring with sufficient manpower to enhance the effectiveness of the first appellate level. Annual targets are laid down in the Action Plan for disposal of appeals by Commissioners of Income – tax (Appeals). However, no such time-frame can be laid down for disposal at Income tax Appellate Tribunal (ITAT), High Court (HC) and/or Supreme Court (SC) level as that it beyond the purview of the Income tax Department.
- g) A Committee headed by Chief Commissioner of Income tax has been constituted to appraise the efficacy of the existing system of filing appeals and suggest suitable measures. The Report of the Committee is under consideration.
- h) CBDT's OM dated 07.11.2014 on "Further steps towards a non-adversarial tax regime" has been issued further tightening the administrative mechanism for filing of appeals and SLPs.
- i) Evolution of Tax Laws and Rules and their simplification is a continuous process. Tax litigation is a natural corollary of the right to appeal which has come to be recognised as a very important right to strengthen the concept of natural justice. Several measures have been taken to minimise tax litigation and for simplification & streamlining of the process of dispute resolution. Some of the measures taken in recent years are:
 - ❖ Income limit of cases that may be disposed by a single member bench of ITAT has been proposed to be enhanced from Rs. 5 Lacs to Rs. 15 Lacs by Finance Bill, 2015.
 - ❖ It has been proposed in Finance Bill, 2015 that besides the years in which notice for re-assessment under section 148 has been issued, Settlement Commission can also be approached for the years for which notice for re-assessment has not been issued but the same can be issued if the return for that year has been filed. Similarly, the scope of cases that can be taken up before Settlement Commission was widened, by Finance (No. 2) Act, 2014, so as to include the proceedings of re-assessment under section 147, and proceeding for making fresh assessment in pursuance of an order under section 254 or section 263 or section 264 of the Act.

- ❖ Finance Bill 2015 proposes to insert a new section 158AA so as to pre-empt the need for repetitive appeals by the department in the case of same assessee on the same question of law year after year.
- ❖ Roll back mechanisms have been provided in the Advance Pricing Agreement (APA) scheme. It provides for Applicability of Arm's Length Price (ALP) or the methodology of determination of ALP to the transactions entered during the period prior to the Advance Pricing Agreement (APA).
- ❖ Besides non-residents, residents have also been enabled, by amendments made in the Income-tax Act by Finance (No 2) Act, 2014 with effect from 1-10-2014, to seek advance rulings in the Authority for Advance Rulings for specified transactions.
- ❖ In January this year, five full-time Dispute Resolution Panels (DRPs) with three Commissioners of Income Tax each as members have been constituted in Delhi, Mumbai and Bengaluru as an Alternative Dispute Resolution (ADR) mechanism for resolving the disputes relating to Transfer Pricing matters.

CBEC

The process of review of statutory provisions as well as the various rules and regulations is a continuous one. Feedback is obtained from all the stakeholders and changes are made from time to time as to have a non-adversarial role vis.-a-vis. the tax payer.

CBEC has been continuously monitoring and requesting all field formations to achieve the arrears target and to maximize realization of arrears, especially the clearly recoverable arrears. The Board for Industrial and Financial Reconstruction (BIFR) and Financial Intelligence Unit (FIU) have also been approached regularly, so as to expedite realization of locked up arrears.

An annual action plan had been drawn up and is being implemented by prescribing strict timelines to be adhered to in cases where stay has been granted, and where the stay is no longer in force, cases in CESTAT involving similar issues which can be bunched and cases pending before the Board for Industrial and Financial Reconstruction/Official Liquidator/Debt Recovery Tribunal.

Timelines for action to be taken for recovery of indirect tax arrears have been given to the field formation for liquidation of revenue arrears.

These timelines include the following:-

- (a) Action to be taken on updation of data on defaulters;
- (b) Action on cases with BIFR/DRT/OL;
- (c) Action under Section 142 of Customs Act
- (d) Action with regard to tracing of defaulters by use of data from Financial Intelligent Unit (FIU), Integrated Tax Payer Data Management System (ITDMS) etc.

The department has, as an ongoing process, reviewed and rationalised the rules and procedure with the aim to reduce litigation and provide a simple and non-adversarial tax administration to assessee. There are provisions for an assessee to admit his duty liability and pay interest and reduced penalty. The Assessee can also approach the Settlement Commission to avoid protracted appellate proceedings. The department has also issued specific guidelines to reduce departmental appeals in various fora. The department is committed to provide a non-adversarial tax regime for honest tax payers".

16. The Committee are constrained to note that direct tax arrears have been rising at a fast pace and they have now even surpassed the annual target of direct tax collection for the year 2014-15. The Committee are not convinced with the reply of the Government that the reasons for rising arrear demand has been due to inclusion of demand related to various scam cases such as Hassan Ali Group (Rs.1,65,665 crore), B.C. Dalal Group (Rs.14,169 crore), Ketan Parekh (Rs.3,627.83 crore) and Harshad Mehta Group (Rs.23,189 crore) etc., which are all under legal proceedings under various Acts. The Committee note that recovery in these cases by operation of Income Tax Act alone is thus not possible. Moreover, assets commensurate with the demand are also not available for recovery in these cases. The issue of ever-increasing tax arrears also raises serious questions over the quality of assessment itself which results in tax demands failing judicial scrutiny. The Committee, therefore, desire that the Department should focus their energies not just on collecting pending dues but also to enhance the objectivity of their assessment, which would in the final count bring down unnecessary litigation. In the meantime, every effort should be made to hasten the recovery of collectible arrears in a time-bound manner. Considering the quantum of arrears which are mounting in an unbridled manner, the Committee would expect the Department of Revenue to put collection of tax arrears on top priority and bring about a time bound action for realising tax arrears as well as minimising litigations under intimation to the Committee.

New Delhi;
22 July, 2015
31 Ashadha, 1937 (Saka)

DR. M. VEERAPPA MOILY,
Chairperson,
Standing Committee on Finance

Minutes of the Thirty-first sitting of the Committee on Finance

The Committee sat on Thursday, the 16th July, 2015 at 1500 hrs. to 1815 hrs. in Committee Room 'D', Ground Floor, Parliament House Annexe, New Delhi.

PRESENT

Dr. M. Veerappa Moily - Chairperson

LOK SABHA

2. Shri S.S. Ahluwalia
3. Shri P.C. Gaddigoudar
4. Shri Shyama Charan Gupta
5. Shri Prataprao Jadhav
6. Shri Rattan Lal Kataria
7. Shri Bhartruhari Mahtab
8. Shri Rayapati Sambasiva Rao
9. Prof. Saugata Roy
10. Shri Gajendra Singh Sekhawat
11. Shri Gopal Shetty
12. Shri Anil Shirole
13. Dr. Kiritbhai Solanki
14. Dr. Kirit Somaiya

RAJYA SABHA

15. Shri Satish Chandra Misra
16. Shri K.N. Balagopal
17. Dr. Manmohan Singh

SECRETARIAT

- | | | | |
|----|------------------------------|---|---------------------|
| 1. | Smt. Abha Singh Yaduvanshi | - | Joint Secretary |
| 2. | Shri P.C. Tripathy | - | Director |
| 3. | Shri Ramkumar Suryanarayanan | - | Additional Director |
| 4. | Shri Kulmohan Singh Arora | - | Deputy Secretary |

2. XX XX XX XX XX.

3. XX XX XX XX XX

4. Thereafter, the Committee took up the following draft Reports for consideration and adoption:

- (i) Draft Report on Action Taken by the Government on the recommendations contained in the 2nd Report of the Committee on Finance on DFGs (2014-15) of the Ministry of Finance (Department of Economic Affairs, Expenditure, Financial Services and Disinvestment);
- (ii) Draft Report on Action Taken by the Government on the recommendations contained in the 3rd Report of the Committee on Finance on DFG (2014-15) of the Ministry of Finance (Department of revenue);
- (iii) Draft Report on Action Taken by the Government on the recommendations contained in the 5th Report of the Committee on Finance on DFGs (2014-15) of the Ministry of Corporate Affairs: and
- (iv) Draft Report on Action Taken by the Government on the recommendations contained in the 6th Report of the Committee on Finance on DFGs (2014-15) of the Ministry of Statistics and Programme Implementation.

5. After some deliberations, the Committee adopted the above draft Reports without any modification and authorised the Chairperson to finalise them and present these Reports to Parliament.

The Committee then adjourned.

APPENDIX

(Vide Para 4 of the Introduction)

ANALYSIS OF THE ACTION TAKEN BY THE GOVERNMENT ON THE RECOMMENDATIONS CONTAINED IN THE THIRD REPORT OF THE STANDING COMMITTEE ON FINANCE (SIXTEENTH LOK SABHA) ON DEMANDS FOR GRANTS (2014-15) OF THE MINISTRY OF FINANCE (DEPARTMENT OF REVENUE)

| | Total | % of total |
|--|-------|------------|
| (i) Total number of Recommendations | 11 | |
| (ii) Recommendations/Observations which have been accepted by the Government (vide Recommendation Nos.1,2,3,5,6,7,8,9,10&11) | 10 | 90.90% |
| (iii) Recommendations/Observations which the Committee do not desire to pursue in view of the Government's replies | Nil | 0.00 |
| (iv) Recommendations/Observations in respect of which replies of the Government have not been accepted by the Committee (vide Recommendation at Sl. No. 4) | 04 | 9.10 % |
| (v) Recommendations/Observations in respect of which final reply of the Government are still awaited | Nil | - |