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STANDING COMMITTEE ON FINANCE
(2016-17)

SIXTEENTH LOK SABHA

MINISTRY OF FINANCE
(DEPARTMENT OF REVENUE)

DEMANDS FOR GRANTS
(2017-18)

FORTY-SEVENTH REPORT

LOK SABHA SECRETARIAT
NEW DELHI

March, 2017 / Phalguna, 1938 (Saka)

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Presented to Lok Sabha on 17 March, 2017

Laid in Rajya Sabha on 17 March, 2017

LOK SABHA SECRETARIAT
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COMPOSITION OF STANDING COMMITTEE ON FINANCE – 2016-17

Dr. M. Veerappa Moily - Chairperson

MEMBERS

LOK SABHA

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

RAJYA SABHA

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

SECRETARIAT

1. Smt. Abha Singh Yaduvanshi - Joint Secretary
2. Shri R.C. Tiwari - Director
3. Shri Ramkumar Suryanarayanan - Additional Director
4. Shri Vivek Pandey - Executive Assistant

INTRODUCTION

I, the Chairperson of the Committee on Finance, having been authorised by the Committee, present this Forty-Seventh Report (Sixteenth Lok Sabha) on 'Demands for Grants (2017-18)' of the Ministry of Finance (Department of Revenue).

2. The Demands for Grants (2017-18) of the Ministry of Finance (Department of Revenue) were laid on the Table of the House on 08 February, 2017 under Rule 331E of the Rules of Procedure and Conduct of Business in Lok Sabha.

3. The Committee took oral evidence of the representatives of the Ministry of Finance (Department of Revenue) on 15 February, 2017. The Committee wish to express their thanks to the representatives of the Department of Revenue for appearing before the Committee and furnishing the material and information which the Committee desired in connection with the examination of the Demands for Grants (2017-18).

4. The Committee considered and adopted this Report at their Sitting held on 16 March, 2017.

5. For facility of reference, the Observations / Recommendations of the Committee have been printed in bold at the end of the Report.

New Delhi;
16 March, 2017
25 Phalguna, 1938 (Saka)

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

REPORT

PART – I

Background Analysis

I. INTRODUCTORY

1.1 The Department of Revenue exercises controls in respect of matters relating to all the Direct and Indirect Taxes through two Statutory Boards, namely, the Central Board of Direct Taxes (CBDT) and the Central Board of Excise and Customs (CBEC). A Chairman who is also ex-officio Special Secretary to the Government of India heads each Board. Matters relating to the levy and collection of all the Direct Taxes are looked after by CBDT, whereas those relating to levy and collection of customs and central excise duties and service tax fall within the purview of CBEC. The two Boards were constituted under the Central Board of Revenue Act, 1963. Both CBDT and CBEC have six Members each. The Members are also ex-officio Special Secretaries to the Government of India.

1.2 The Department of Revenue is mainly responsible for the following functions:-

- All matters relating to levy and collection of Direct Taxes.
- All matters relating to levy and collection of Indirect Taxes.
- Investigation into economic offences and enforcement of economic laws.
- Framing of policy for cultivation, processing, export and fixation of price of Opium etc.
- Prevention and combating abuse of Narcotic drugs and psychotropic substances and illicit traffic therein.
- Enforcement of FEMA and recommendations of detention under COFEPOSA.
- Work relating to forfeiture of property under Smugglers and Foreign Exchange Manipulators (Forfeiture of Property) Act, 1976 and Narcotics Drugs and Psychotropic Substances Act, 1985.

- Levy of Taxes on sales in the course of inter-state trade or commerce.
- Matters relating to consolidation/reduction/exemption from payment of Stamp duty under Indian Stamp Act, 1899.
- Residual work of Gold Control Act.

1.3 The Department of Revenue administers the following Acts: -

- Income Tax Act, 1961;
- Wealth Tax Act, 1958;
- Expenditure Tax Act, 1987;
- Benami Transactions (Prohibition) Act, 1988;
- Super Profits Act, 1963;
- Companies (Profits) Sur-tax Act, 1964;
- Compulsory Deposit (Income Tax Payers) Scheme Act, 1974;
- Chapter VII of Finance (No.2) Act, 2004 (Relating to Levy of Securities Transactions Tax);
- Chapter VII of Finance Act 2005 (Relating to Banking Cash Transaction Tax);
- Chapter V of Finance Act, 1994 (Relating to Service Tax);
- Central Excise Act, 1944 and related matters;
- Customs Act, 1962 and related matters;
- Medicinal and Toilet Preparations (Excise Duties) Act, 1955;
- Central Sales Tax Act, 1956;
- Narcotic Drugs and Psychotropic Substances Act, 1985;
- Prevention of Illicit Traffic in Narcotic Drugs and Psychotropic Substances Act,1988;
- Smugglers and Foreign Exchange Manipulators (SAFEM) (Forfeiture of Property) Act, 1976;
- Indian Stamp Act, 1899 (to the extent falling within jurisdiction of the Union);

- Conservation of Foreign Exchange and Prevention of Smuggling Activities Act, 1974;
- Foreign Exchange Management Act, 1999; and
- Prevention of Money Laundering Act, 2002.

1.4 The department looks after the matters relating to above mentioned Acts through divisions and attached/subordinate offices whose functions are as follows :-

- **Central Board of Direct Taxes**: All matters relating to levy and collection of direct taxes.
- **Central Board of Excise and Customs**: All matters relating to levy and collection of indirect taxes.

States Taxes Wing:

Administration of Sales Tax Laws (Validation) Act, 1956, Central Sales Tax, State-level Value Added Tax (VAT), Indian Stamp Act, 1989 etc.

Narcotics Control Division:

Framing of licensing policy for cultivation of opium poppy, production of opium and export and pricing of opium & alkaloids. Coordination of the working of Committee of Management (COM) and issues relating to UN and International Organizations.

Committee of Management (COM) :

Administering the Departmental Undertakings viz. Government Opium and Alkaloid work Neemuch (M.P.) and Ghazipur (U.P.) which are engaged in processing of raw opium for export purposes and also for extraction of alkaloids from opium, which are used by the pharmaceutical industry.

Administration Division :

All administrative matters of Department of Revenue. Maintenance of CR Dossiers of the staff and officers of the Secretariat proper of the Department IRS

(Group-A), IRS (Customs & Central Excise) (Group-A). Coordination work and work relating to translation of languages and implementation of Hindi.

Revision Application Unit :

Work relating to revision applications filed against the orders of Commissioners of Customs (Appeals) and Commissioners of Central Excise (Appeals) and the cases filed before 11.10.1982 against CBEC.

Integrated Finance Unit:

Tendering advice in all financial matters pertaining to Department of Revenue and its constituent units & field formations under CBDT & CBEC. Deals with expenditure and financial proposals. Prepares & examines expenditure budget for grants relating to Department of Revenue, Direct Taxes & Indirect Taxes.

Competent Authorities:

Work relating to forfeiture of property under Smugglers and Foreign Exchange Manipulators (Forfeiture of property) Act, 1976 and Chapter V-A of Narcotics Drugs and Psychotropic Substances Act, 1985.

Appellate Tribunal for Forfeited Property :

Adjudication of appeals filed by persons against orders of forfeiture of properties passed by Competent Authorities under the SAFEM (FOP) Act, 1976 and Chapter V A of NDPS Act, 1985.

Customs, Excise, Service Tax Appellate Tribunal:

Appeals against the orders of Executive Commissioners and Commissioners (Appeals).

National Committee for Promotion of Social and Economic Welfare:

Recommending projects of social and economic welfare to the Central Government for issuance of notification under section 35 AC of the Income Tax Act, 1961.

Authority for Advance Rulings:

Giving advance rulings on a question of law or fact specified in an application filed by Non-Residents in relation to transaction, which has been undertaken or proposed to be undertaken by the applicant.

Customs and Central Excise Settlement Commission:

Settlement of applications filed by the assessees under the Customs Act and Central Excise Act.

Settlement Commission (IT/WT):

Settlement of applications filed by the assessees under the Income Tax Act, 1961 and the Wealth Tax Act, 1957.

Central Economic Intelligence Bureau:

Coordinating and strengthening of the intelligence gathering activities, the investigative efforts and enforcement action by various agencies concerned with investigation into economic offences and enforcement of economic laws.

Enforcement Directorate:

Responsible for enforcement of the provisions of Foreign Exchange Regulation Act. Recommending cases for detention under the Conservation of Foreign Exchange and Prevention of Smuggling Activities Act, 1974. Under Foreign Exchange Management Act, 1999, the Enforcement Directorate is mandated primarily as the investigation and adjudicating agency. Powers have also been conferred on the Director of Enforcement under the relevant provisions of the Prevention of Money Laundering Act, 2002.

Financial Intelligence Unit:

To coordinate and strengthen collection and sharing of financial intelligence through an effective national, regional and global network to combat money laundering and related crimes. Powers have been conferred on the Director, Financial Intelligence Unit- India under the relevant provision of Prevention of Money Laundering Act, 2002

Adjudicating Authority under PMLA:

To exercise jurisdiction, powers and authority conferred by or under the Prevention of Money Laundering Act, 2002. The Authority is empowered to confirm the provisional attachment after hearing the aggrieved parties to ensure that property is not disposed-off during the pendency of trial for scheduled offence or offence of money laundering. Income Tax Ombudsman:ν Income Tax Ombudsmen have been posted in seven cities to look into taxpayers' grievances. Indirect Tax Ombudsman:ν The Indirect Tax Ombudsman in four cities to resolve the complaints relating to public grievances against the Customs, Central Excise and Service Tax Department have been appointed.

II. BUDGETARY ALLOCATIONS AND UTILISATION

2.1 The detailed Demands for Grants (2017-18) of the Ministry of Finance were presented to Lok Sabha on 8 February, 2017. The details of the Revenue Section and Capital Section of the Demands for Department of Revenue, Central Board of Direct Taxes (CBDT) and Central Board of Excise and Customs (CBEC) for the year 2017-18 are as follows :-

(Rs. in crore)

Sl. No.	No. and Name of Demand	Revenue voted	Capital voted	Total
1.	33 - Department of Revenue	834.83	2.43	**837.26**
2.	34 - Direct Taxes	5881.85	228.79	**6110.64**
3.	35 - Indirect Taxes	5861.44	228.07	**6089.51**

2.2. Summary of Budgetary Provisions under Demand Nos. 33, 34 and 35 for 2014-15, 2015-16, 2016-17 and 2017-18 is as under :

DEMAND NO. 33

DEPARTMENT OF REVENUE

(Rs. in crore)

Financial Year	BE	RE	Expenditure (up to 31st March)	% of RE Utilized	Amount Surrendered
2014-15	832.91	11810.79	11332.73	95.95%	503.86
2015-16	16187.69	17082.25	17035.16	99.72%	107.95
2016-17	11925.01	11108.36	6217.91 (up to 31.12.2016)	55.96%	**Yet to be finalized**
2017-18	837.28	**Yet to be finalized**			

<u>Reasons for Variations (Major-Head wise)</u>

<u>REVENUE SECTION</u>

The major part of the Budget provision in next FY 2017-18 is for meeting the Non-Plan expenditure of Revenue Headquarters and its various field offices (Central Economic Intelligence Bureau; Financial Intelligence Unit of India; Enforcement Directorate; Appellate Tribunal; CESTAT; Pr. CCA, CBDT; Pr. CCA, CBEC; Competent Authorities, Committee of Management, Pay & Accounts Office (Revenue); National Institute of Public Finance & Policy (NIPFP), Central Bureau of Narcotics, Special Investigation Team (SIT) and Contributions to International Organizations.

The second major expenditure under this Grant is on Govt. Opium & Alkaloid Works, which are responsible for processing of raw opium for exports, manufacturing of opiate alkaloids and other related functions through its two factories at Ghazipur (UP) and Neemuch (Madhya Pradesh). A provision of Rs.359.00 crore (approx.) has been kept for 2017-18.

As Government decided to discontinue the CST/VAT and imposed a unified Goods & Service Taxes from the next financial year, only a token provision has been kept to settle compensation claims of States/UTs for revenue loss due to phasing out of CST/VAT, if received.

The Major Head-wise reasons for variations in the expenditure during the last three years are as under:

MH 2052 : In 2014-15, the RE was almost kept at BE level. However, again the expenditure was less than RE. In 2015-16, RE has been reduced keeping in view the trend of expenditure and BE for 2016-17 has been kept at the level of BE 2015-16 keeping in view the financial implication of 7th CPC. In 2016-17, RE was further enhanced to compensate the requirement of higher wages and setting up of GST Council Secretariat and expenditure on international arbitration matters. BE 2017-18 has been kept at the level of Rs.252.98 crores, which is still lower than RE 2016-17.

MH 2020: The provision is for maintenance expenditure of National Committee for Promotion of Social & Economic Welfare. In 2014-15 and 2015-16, the BE was kept at Rs.0.40 crore and Rs.0.35 crores respectively. However, the RE was reduced to Rs.0.30 crore in both the FYs. Further, the actual expenditure in both the years was almost same i.e Rs. 0.24 crores only due to less number of meetings of the Committee held during the year. Hence in 2016-17, the BE was kept at Rs.0.35 crore and the same provision has been kept for 2017-18.

MH 2047: With reference to BE, the RE for 2014-15 was increased due to more requirements of funds by ED and CESTAT. However, an expenditure of Rs.128.94 crore only could be incurred. Keeping in view the requirements projected by Goods & Service Tax Network (GSTN) for 2015-16, the BE for 2015-16 was kept at Rs.292 crore. Similarly, ED was also allocated additional funds, which resulted in further increase in BE to Rs.450.09 crore. The RE 2015-16 has, however, been reduced as GSTN required only an amount of Rs.130 crore. In BE 2016-17, an amount of Rs.696.69 crore was kept for GSTN, besides additional requirement of funds for ED and CESTAT. Due to non-utilization of funds by GSTN-SPV, the RE has been reduced significantly and no provision has been kept for this purpose for future. Accordingly, BE 2017-18 has been kept 175.13 crores only.

MH 2070 : The provision for 2014-15 was enhanced as Tax Administration Reform commission (TARC) was allocated an amount of Rs.5.16 crore and the newly established Special Investigation Team (SIT) was also provided Rs.8.93

crore. The International Contribution was also increased from Rs.2.74 crore in 2013-14 to Rs.6.10 crore in 2014-15. However, the actual expenditure was only Rs.45.67 crore against the RE of Rs.54.96 crore.

The BE 2015-16 was increased slightly as compared to RE 2014-15 due to requirement of more funds by Central bureau of Narcotics (CBN). It has, however, been reduced keeping in view the trend of expenditure and BE 2016-17 was kept at the level of RE 2015-16. Keeping in view trends of expenditure, RE has been reduced slightly and due to shifting of provisions for Marketing and Finance Cell under MH 2875 from the next FY, the BE 2017-18 has reduced proportionately.

MH 2875: In 2014-15, RE was increased to make payment of about Rs.33 crore to Ms. Temad, Iran towards import of codeine phosphate. However, the expenditure was up to BE level due to less import of codeine phosphate and less export of opium. The BE 2015-16 was thereafter increased due to more purchase of opium and import of codeine phosphate. It has, however, been reduced in RE 2015-16 as less opium has been procured than anticipated. The actual expenditure in 2015-16 remained below the RE level, however keeping in view the higher requirement in next FY for purchase of opium; provision was kept at Rs. 315.65 crores in 2016-17. Due to crop failure there is less requirement for supplies & Materials and interest payment charges, RE 2016-17 has been reduced by almost 50% of BE. Keeping in view a major increase in the number of opium poppy cultivators as well as the area under cultivation and due to inclusion of Marketing and Finance Cell under this Major Head, BE 2017-18 has been kept higher than BE 2016-17.

MH 3601: This provision is for VAT/CST compensation expenditure to the States. In BE 2014-15, only a token provision of Rs 0.01 crore was kept for the proposed e-stamping scheme, which was further surrendered in RE. Under Grant –in-Aid to compensate revenue losses to States due to phasing out of CST, a provision of 0.01 crore was kept at BE level, which was revised to Rs. 10758.43 crore at RE. The actual requirement remained at Rs. 10724.08 crore. Further BE for 2015-16 was kept at Rs. 14929.00 crore, which was revised to Rs. 14370.60 crore at RE as per actuals. BE for 2016-17 was kept at Rs. 8887.46 crore, but actual requirement will be higher, which needs to be covered by supplementary Grant. For 2017-18, only a token provision of Rs.0.01 crore has been kept for CST and VAT related compensation each. Further, a token provision of Rs. 0.01 crore has also been made for compensation to States for Revenue Loss due to roll out of GST.

MH 3602: This provision is for VAT/CST compensation expenditure to the Union Territory Administrations. For VAT related compensation in 2014-15, only token provision of Rs. 0.01 crore was kept, which was also surrendered in RE. Thereafter, no provision was kept in 2015-16, 2016-17 and 2017-18 as no more claims of UTs are pending.

No provision of CST compensation was in BE 2014-15, however, as it was decided to provide CST Compensation to UTs beyond 2010-11, a provision of Rs.241.57 crore in RE 2014-15 was kept. However, an amount of Rs.4 crore only was released due to non-receipt of proposals. A provision of Rs.99 crore was made in BE 2015-16, which was enhanced to Rs.1944.65 crore to settle the claims of UT of Puducherry and Govt. of NCT of Delhi. Further in 2016-17, a provision of Rs.1582.01 crore was kept, which remained same at RE. As there may be no claim to be settled in 2017-18, a token provision of only Rs. 0.01 crore has been kept.

CAPITAL SECTION

Under capital section, requirements are mainly under three Major heads i.e.:-

MH - 4059 - Capital outlay on public works (Rajaswa Bhawan),

MH - 4216 - For purchase of ready built accommodation/residential building.

MH - 4875 - Capital expenditure on Government Opium and Alkaloid Works.

Under this section utilization of funds remains very slow and due to this many of the projects have been delayed. In 2014-15 against the BE of Rs.106.01 crore, actual expenditure was only Rs.0.22 crores. In 2015-16 there was a provision of Rs.100.00 crore for Rajaswa Bhawan and 6.00 crore for capital expenditure on GOAWs. Keeping in view the pace of development in construction of Rajaswa Bhawan, RE was revised to only Rs.4.00 crore, which was further surrendered due to non-utilization. There was a nominal expenditure of Rs.0.01 crore against the allocation kept for capital outlay for GOAWs.

In BE 2016-17, provision of Rs.56.00 crore was kept under capital section which has been revised to Rs.11.00 crores at RE stage due to no development in construction of Rajaswa Bhawan. Larger part of allocated funds under capital segment have been surrendered in last three years and for this reason the allocation under capital head in 2017-18 has been curtailed and a token provision of Rs.0.01 crore has only been kept for Rajaswa Bhawan. For capital expenditure on GOAW a provision of Rs 2.42 crore has been kept.

DEMAND NO. 34
DIRECT TAXES

Grant No. 34 - Direct Taxes has no Central Sector Schemes and Centrally Sponsored Schemes. The entire budget is for salaries/administrative expenses.

The Year-wise allocation and utilisation for the last 3 years w.e.f. F.Y. 2014-15 is as follows (including funds surrendered):

(Rs. in crore)

Financial Year	BE	RE	Total Expenditure (up to 31st march)	% of RE Utilized	Amount Surrendered
2014-15	5094.89	4328.97	4163.12	96.17	912.16
2015-16	5408.56	4752.00	4720.84	99.34	669.95
2016-17	5389.00	5704.00	4239.68 **(up to 31.12.2016)**	74.33	**Yet to be finalized**
2017-18	**6110.64**				

2014-15

BE of Rs. 5094.89 crore was reduced to Rs. 4328.97 crore at RE stage in view of economy instructions in force. Under Revenue Section, RE was reduced to Rs. 4178.97 crore against BE of Rs. 4342.89 crore which shows a reduction of Rs. 163.92 crore. Under Capital Section, the RE provision was reduced to Rs. 150.00 crore against BE of Rs. 752.00 crore due to non-completion of some projects and enforcement of economy cut. Actual expenditure incurred upto 31.03.2015 was Rs. 4163.12 crore (Rs. 4093.25 crore under Revenue Section and Rs. 69.87 crore under Capital Section). It shows that 96.17% of the budget as per RE was utilized upto March, 2015. Utilisation under Revenue Section works out to 97.95 % of RE whereas it was 46.58 % under Capital Section. The total amount surrendered in F.Y. 2014-15 was 912.16 crore.

2015-16

BE of Rs. 5408.56 crore was reduced to Rs. 4752.00 crore at RE stage in view of economy instructions in force. Under Revenue Section, RE was reduced to Rs. 4610.00 crore against BE of Rs. 4832.36 crore which shows a reduction of Rs. 222.36 crore. Under Capital Section, RE provision was reduced to Rs. 142.00 crore against BE of Rs. 576.20 crore due to non-completion of some projects and enforcement of economy cut. Actual expenditure incurred upto 31.03.2016 was Rs. 4720.84 crore (Rs. 4623.66 crore under Revenue Section and Rs. 97.18 crore under Capital Section). It shows that 99.34% of the budget as per RE was utilized upto March, 2016. Utilisation under Revenue Section was 100.30 % of RE whereas it was 68.44 % under Capital Section. The total amount surrendered in F.Y. 2015-16 was 669.95 crore.

2016-17

BE of Rs. 5389.00 crore has been enhanced to Rs. 5704.00 crore at RE stage. Under Revenue Section, the allocation under Salaries head has been enhanced from 3084.00 crore to 3368.00 crore to meet the expenditure on implementation of 7th CPC recommendations. An amount of Rs. 100.00 crore was allocated through 1st Batch of Supplementary towards advertisement for Income Tax Declaration Scheme 2016 and Tax Dispute Resolution Scheme 2016. Actual expenditure incurred upto 31.12.2016 is Rs. 4239.68 crore

(Rs. 4184.67 crore under Revenue Section and Rs. 55.01 crore under Capital Section). It shows that 74.33% of the budget as per RE has been utilized upto December, 2016. Utilisation under Revenue Section works out to 75.17% of RE whereas it is 40.20 % under Capital Section.

2017-18

The Budget Estimates 2017-18 have been proposed at Rs. 6110.64 crore out of which Rs. 5881.85 crore is under Revenue Head and Rs. 228.79 crore is under Capital Head. On Revenue Side, the expenditure on 'Salaries' is estimated at Rs. 3603.76 crore, which is 58.98% of the total grant. There has been an increase of 7% over RE 2016-17 (Rs. 3368.00 crore) in 'Salaries' Head to accommodate annual increment, two instalments of DA, enhanced rate of HRA and filling up of new posts on account of cadre restructuring in CBDT. On Revenue Side, the other major expenditure is under heads 'Offices Expenses', 'Rent, Rates and Taxes' and 'Information Technology'. Brief of these heads is as under:

- Office Expenses:-The expenditure under 'Office Expenses' is estimated at Rs. 933.29 crore, which is 15.27% of the total grant. There has been an increase of 4.44% over RE 2016-17 (Rs. 893.60 crore) in 'Office Expenses' Head to cater to the regular activities of the Department including setting up of new offices, setting up of Aayakar Seva Kendras (ASKs), additional expenditure on account of cadre restructuring, committed liabilities and 1% Incentive scheme.
- Information Technology:-The expenditure under 'Information Technology' is estimated at Rs. 580.00, which is 9.49% of total grant. There has been an increase of 8.56% over RE 2016-17 (Rs. 534.26 crore) in 'Information Technology'. A lot of projects have been going on in Information Technology Sector of IT Department. A majority of IT driven programmes have already been implemented and are ongoing.
- The expenditure under 'Rent, Rates & Taxes' is estimated at Rs. 342.00 crore which is 5.60% of total grant. There has been an increase of 28.97% over RE 2016-17 (Rs. 265.18 crore) in 'Rent, Rates & Taxes' to accommodate the requirement of office space pursuant to cadre restructuring.

On Capital side, out of the total provision of Rs. 228.79 crore, a portion amounting to Rs. 106.00 crore is for Acquisition of Office accommodation and another Rs. 120.79 crore is for Acquisition of Residential accommodation. Under Capital Head, there has been an increase of 67.21% over RE 2016-17 (136.83 crore) and of 13.26% over BE 2016-17 (Rs. 202.00 crore.).

DEMAND NO. 35
INDIRECT TAXES

The **Grant No.35 - Indirect Taxes** (erstwhile Grant No.39 in FYs 2014-15 to 2016-17} does not have any Plan Component/schemes. The entire budget is under **Non-Plan** for salaries/administrative expenses. The Year-wise allocation and utilisation for last 3 years w.e.f. F.Y. 2014-15 is as follows (including funds surrendered):

(Rs. in crore)

Financial Year	BE	RE	Total Expenditure (upto 31/3 of each FY)	% of RE Utilized	Amount Surrendered
2014-15	5155.83	4471.00	4293.04	96.02 %	696.17
2015-16	5665.10	4600.50	4540.30	98.69 %	1025.00
2016-17	5340.50	5550.50	3939.12 (upto 30.11.2016)	70.97 % (upto 30.11.2016)	Yet to be finalised
2017-18	**6090.01**				

<u>2014-15</u>

BE of Rs.5155.83 crore was reduced to Rs.4471.00 crore at RE stage in view of Economy Instructions in force. Under *Revenue* Section, RE was reduced to Rs.4321.00 crore against BE of Rs.4884.52 crore). Under *Capital* Section, the RE provision was reduced to Rs.150.00 crore against B.E of Rs. 271.31 crore due to non-completion of some projects and enforcement of economy cut. Actual expenditure incurred upto 31.03.2015 was Rs.4293.04 crore (Rs.4164.24 crore under Revenue Section and Rs.128.80 crore under Capital Section) i.e. **96.02% of the RE was utilized upto March, 2015 {**96.37% from Revenue Section &

85.87% from Capital Section}. The total ***amount surrendered was*** Rs.***696.17 crore*** in F.Y. 2014-15.

2015-16

BE of Rs.5665.10 crore was reduced to Rs.4600.50 crore at RE stage. Under *Revenue* Section, RE was reduced to Rs.4471.70 crore against BE of Rs.5001.49 crore. Under *Capital* Section, RE provision was reduced to Rs.128.80 crore against BE of Rs.663.61 crore. The Actual expenditure incurred upto 31.03.2016 was Rs. 4540.30 crore (Rs. 4444.90 crore under Revenue Section and Rs. 95.40 crore under Capital Section). Therefore, **98.69% of the RE was actually utilized upto March, 2016 {**99.40 % from Revenue Section and 74.07 % from the Capital Section}. Thus the ***total amount surrendered*** *in F.Y. 2015-16* ***was Rs. 1025.00 crore.***

2016-17

BE of Rs.5340.50 crore has been increased to Rs.5550.50 crore at RE stage. Under Revenue Section, RE has been increased to Rs.5350.48 crore against BE of Rs.5140.50 crore which shows an increase of Rs.209.98 crore. Under Capital Section, the RE provision has been kept at the same level of Rs.200.02 crore. Actual expenditure incurred upto 30.11.2016 is Rs.3939.12 crore (Rs.3855.26 crore under Revenue Section and Rs.83.86 crore under Capital Section). It shows that 70.96% of the Budget as per RE has been utilized upto Nov.2016. Utilization under Revenue Section works out to 72.05% of RE whereas it is 41.93% under Capital Section.

2017-18

The Budget Estimates 2017-18 have been proposed at Rs.6090.01 crore (Rs. 5861.94 crore under ***Revenue*** Head and Rs.228.07 crore under ***Capital*** Head). On Revenue Side, the expenditure on 'Salaries' is estimated to be 64.72% of the total grant (Rs.3941.53 crore). The increase of 7% over RE of previous FY 2016-17 (Rs.3683.68 crore) in 'Salaries' Head is to accommodate annual increment, two instalments of DA, filling up of new posts in CBEC. The other major expenditure on Revenue Side is expected to be on 'Offices Expenses', 'Rent, Rates and Taxes', 'Information Technology', and “Advertising and Publicity”. Brief of these heads is as under:

a. **<u>Office Expenses</u>:** The expenditure under 'Office Expenses' is estimated at Rs.524.93 crore, which is **8.62% of the total grant**. The increase of 19.71% over BE 2016-17 (Rs.438.50 crore) in 'Office Expenses' Head is due to additional expenditure on account of GST related works including outreach programme & the integrated GST Trainings for State Govt. & CBEC officials in the field formations all over India before implementation of GST as also the 1% Incentive scheme, besides the regular activities of the Department including setting up of new offices. Since 2014-15 there has been an increase of 35.13% upto F.Y. 2017-18 as compared to BE of 2014-15.

b. **<u>Information Technology</u>:** The expected expenditure under 'Information Technology' is estimated at Rs.572.32 crore, which is **9.40% of total grant**. This is an increase of 63.99% over RE 2016-17 (Rs. 349 crore) to enable adequate infrastructure IT support system before GST roll out besides the ongoing IT driven programmes already being implemented. There is an increase of 158.60% upto F.Y. 2017-18 (as compared to FY2014-15), as a number of initiatives have been undertaken by harnessing latest technology to enable a System driven business environment in the Department for facilitating the trade and for ease of doing business. The IT measures have ensured qualitative improvement in the Tax Payers Services and also introduced objectivity leading to reduction in interface between the Taxpayer and the Department, to minimize grievances.

c. **<u>'Rent, Rates & Taxes'</u> :** The expenditure under this head is estimated to be of Rs. 260.00 crore which is **4.27% of total grant**. This is an increase of 14.79% (Rs.226.50 crore) over RE of FY 2016-17 in 'Rent, Rates & Taxes' to address the pending liability such as Services Charges payable to the local Municipal Authorities; rents for new office spaces hired for Service tax formations and payment of periodic rent revisions.

d. **<u>'Advertising and Publicity':</u>** The expenditure under head is estimated to be of Rs. 132.00 crore which is **2.17% of total grant**. This is an increase of 83.33% over RE 2016-17 (Rs.72.00 crore) as additional funds shall be required by Directorate General of Tax Payer Services (DGTPS) for carrying out advertising and publicity campaigns prior to implementation of GST in addition to other routine and ongoing activities. As compared to BE of 2014-15, there is an increase of 193.33% upto F.Y. 2017-18 because of more "Advertising and Publicity" campaigns and rising costs of publicity.

Under Capital Head, there is an increase of 14.02% proposed over RE 2016-17 (Rs. 200.02 crore). A major portion amounting to Rs.70.00 crore is for acquisition of anti-smuggling equipment/ marine fleet while Rs.128.07 crore is for acquisition of Office accommodation and Rs.30.00 crore allocated for acquisition of residential accommodation. In F.Y. 2017-18, the allocation under Capital Section has decreased by 15.94% as compared to FY2014-15.

III. OTHER ISSUES RELATING TO DEMANDS FOR GRANTS (2017-18)

(i) Tax-GDP Ratio and Tax Base

Regarding the low tax-GDP ratio of economy as against other comparable economies, viz. BRICS countries and endeavours to widen the tax base and increasing the tax-GDP ratio, the Ministry vide their reply stated as under:-

Following are the comparable data of tax-GDP ratio of BRICS economies:

Country	Total Tax	Direct tax	Individual Income tax	Indirect tax
China	19.4	5.3	--	12.7
India	16.6	5.6	2.1	10.1
Brazil	35.6	7.3	2.3	15.7
South Africa	28.8	15.0	--	10.2
Russia	23.0	7.2	--	7.1

Direct Taxes

Several legislative and administrative measures have been taken in recent years to widen/deepen tax base and increase the tax-GDP ratio, as follows:

A. Legislative Measures: Currently, the rate of personal income tax ranges from 'nil' upto income of Rs 2.5 lakhs, 10% in respect of income from Rs 2.5 lakhs to 5 lakhs, 20% in respect of income from Rs 5 lakhs to 10 lakhs and 30% in respect of income above Rs 10 lakhs besides surcharge in certain cases and additional surcharge thereon.

1. It may also be mentioned that the Finance Act, 2017 has proposed reduction in rate of income-tax from 10 percent to 5 percent for the slab of income between Rs 2.5 lakhs to Rs 5 lakhs. This will encourage more people to enter the tax rate and thus would help in increasing tax-GDP ratio of India.
2. Transactions/ expenditure oriented tax regime would amount to taxing every taxpayer at same rate as it would not be based on income of a particular taxpayer but on the transaction undertaken. This would be regressive as bulk of the population, particularly, individual taxpayers falls in the bracket of low income. It has also been stated in the Budget Speech of 2017 that out of total individual taxpayers of 3.7 crore, 99 lakh show income below the exemption limit of Rs 2.5 lakhs per year and 1.95 crore show income between Rs 2.5 to 5 lakhs.
3. In view of the above, it may be stated that our economy is not ready for transaction/ expenditure oriented tax regime.
4. Further, the increase in capabilities of the department to prevent tax evasion, widen or deepen tax base and augment tax-GDP ratio is also an ongoing process. Provisions have been introduced through the successive Finance Acts and the sub-ordinate legislation to achieve the same. The measures proposed through the Finance Bill, 2017 for widening and/ or deepening of tax base and to prevent tax evasion are as under:
   (a) It is proposed to amend section 35AD of the Act to provide that any expenditure in respect of which payment or aggregate of payments made to a person in a day, otherwise than by an account payee cheque drawn on a bank or an account payee bank draft or use of electronic clearing system through a bank account, exceeds ten thousand rupees, no deduction shall be allowed in respect of such expenditure.
   (b) It is proposed to amend the provision of section 40A of the Act to reduce the existing threshold of cash payment to a person from twenty thousand rupees to ten thousand rupees in a single day; i.e any payment in cash above ten thousand rupees to a person in a day, shall not be allowed as deduction in computation of Income from "Profits and gains of business or profession.

(c) It is proposed to amend the provisions of section 43 of the Act to provide that where an assessee incurs any expenditure for acquisition of any asset in respect which a payment or aggregate of payments made to a person in a day, otherwise than by an account payee cheque drawn on a bank or account payee bank draft or use of electronic clearing system through a bank account, exceeds ten thousand rupees, such expenditure shall be ignored for the purposes of determination of actual cost of such asset.

(d) It is proposed to amend the clause (38) of section 10 so as to provide that any income arising from the transfer of a long term capital asset, being an equity share in a company shall not be exempted, if the transaction of acquisition, other than the acquisition notified by the Central Government in this behalf, of such equity share is entered into on or after the 1st day of October, 2004 and such transaction is not chargeable to securities transaction tax under Chapter VII of the Finance (No. 2) Act, 2004.

(e) It is proposed to insert a new section 50CA so as to provide that in case of transfer of shares of a company other than quoted share, the fair market value of such shares determined in the prescribed manner shall be deemed to be the full value of consideration for the purpose of computing income chargeable to tax as capital gains.

(f) It is proposed to insert a new clause (x) in sub-section (2) of the section 56 so as to expand the scope of the provisions of this section to all categories of assessees so that the assets received without or inadequate consideration may be brought to the tax. Further, the existing exception contained in this section is proposed to be rationalised by including certain additional exceptions consequently. It is proposed to sun set clauses (vii) and (viia) of sub-section (2) of section 56.

(g) It is proposed to amend sub-section (1A) of the section 58 so as to provide that the provisions of sub-clause (ia) of clause (a) of section 40 shall also apply in computing the income chargeable under the head "Income from other sources" as they apply in computing the income chargeable under the head "Profit and gains of business or profession".

(h) It is proposed to provide that any person as referred to in clause (23AAA), Investor Protection Fund referred to in clause (23EC) or clause (23ED), Core Settlement Guarantee Fund referred to in clause (23EE) and any Board or Authority referred to in clause (29A) of section 10 shall be mandatorily required to furnish return of income.

(i) To reduce generation and circulation of black money, it is proposed to insert Section 269ST to the Act to provide that no person (other than those specified therein) shall receive an amount of three lakh rupees or more-

  (a) in aggregate from a person in a day;

  (b) in respect of a single transaction; or

  (c) in respect of transactions relating to one event or occasion from a person, otherwise than by an account payee cheque or account payee bank draft or use of electronic clearing system through a bank account.

(j) It is also proposed to provide for imposition of penalty of an equal amount on a person who receives a sum in contravention of the provisions of the proposed section 269ST through insertion of new section 271DA. The said penalty shall however not be imposable if the person proves that there were good and sufficient reasons for such contravention.

5. Further, as regards measures taken for widening and/ or deepening of tax base, it may be stated that the levy of tax deduction at source (TDS) or tax collection at source (TCS), *inter alia*, helps in expanding the tax base in the country by providing a mechanism for obtaining information about the taxable transactions and also provides a valuable database for tracking tax evasion. To achieve this objective, the successive Finance Acts have been continuously expanding the scope of levies of TDS and TCS by bringing more and more taxable transaction within their ambit. The Finance Bill, 2017 proposes to insert in the Act,-

(a) Section 194-IB to provide that Individuals or a HUF (other than those covered under 44AB of the Act), responsible for paying to a resident any income by way of rent exceeding fifty thousand rupees for a month or part of month during the previous year, shall deduct an amount equal to five percent of such income as income-tax thereon.

Section 194-IC to provide that in case of Joint Development Agreement where any monetary consideration is payable, tax at the rate of ten per cent shall be deductible from such payment.

B. Administrative measures: The administrative and technological initiatives to augment revenue are as under:

(i) A non-adversarial and non-intrusive tax regime to enhance ease of doing business is being promoted through modernization of the business processes of tax administration. Extensive use of information technology is being made for e-enablement of tax payer services. Filling of income tax returns, various forms, audit reports, statements of tax deduction at source have been made compatible with electronic filling and computerized processing. These steps are expected to raise the level of voluntary compliance and augment revenue collection.

(ii) Centralised Processing Centers for income-tax returns at Bengaluru and for TDS returns at Vaishali, Ghaziabad have enabled tax administration to function in a more efficient manner and has reduced the compliance burden on the tax payers. Centralised processing of returns has also enabled the tax administration to track stop filers, non-filers, non-payment of taxes etc. which helps in widening of the tax base.

(iii) Data warehouse and business intelligence project has been undertaken for developing a comprehensive platform for effective utilisation of information to enhance voluntary compliance and deter non-compliance.

(iv) The Income Tax Department has developed a comprehensive strategy for widening of tax-base consisting of following measures:

a) Developing region specific strategies
b) Effective collection of information about high value transactions
c) Efficient handling of information without valid PAN

d) Improving compliance to TDS/TCS Provisions

e) Promoting voluntary compliance

f) Ensuring compliance from identified non-filers through various methods.

It is constant effort of the Income Tax Department to widen the tax base by comprehensive computerization of the Income Tax Department, utilization of data and information available in house, gathered from third party, publicity and awareness campaigns etc.

The Income Tax Department has implemented the Non-Filer Monitoring System (NMS) which analyses and assimilates all in-house information as well as transactional data received from third-parties, including Annual Information Return (AIR), Tax Deduction at Source (TDS) and Tax Collection at Source (TCS) statements, Central Information Bureau (CIB) data etc. to identify such persons/entities who have undertaken high value financial transactions but have not filed return. About 1.37 crore non-filers with potential tax liability have been identified under NMS and more than 95 Lakh returns have been filed by the target segment and self-assessment tax of about **₹16,500 Crore** has been paid.

(v) More and more types of transactions are being included for mandatory quoting of PAN.

(vi) The Government has taken several steps, both by way of policy-level initiatives as well as by increasing the effectiveness of enforcement actions on the ground, to tackle the issue of tax evasion / black money better. These steps include putting in place robust legislative and administrative framework, systems and processes with due focus on capacity building and integration of information through increasing use of information technology. Major initiatives taken by the Government in this regard include –

(a) Constitution of the Special Investigation Team (SIT) on Black Money under Chairmanship and Vice-Chairmanship of two former Judges of Hon’ble Supreme Court.

(b) Enactment of a comprehensive new law titled ‘The Black Money (Undisclosed Foreign Income and Assets) and Imposition of Tax Act, 2015’ to specifically and more effectively deal with the issue of black money stashed away abroad which has come into force w.e.f. 01.07.2015.

(c) Amendment in the law to provide for penalty on amount taken/ repaid in cash above Rs.20,000/- for immovable property transactions.

(d) Introduction of the Benami Transactions (Prohibition) Amendment Bill, 2015 to amend the Benami Transactions (Prohibition) Act, 1988 with a view to enable confiscation of Benami property and provide for prosecution.

(e) Proactively engaging with foreign governments for enhanced exchange of information under Double Taxation Avoidance Agreements (DTAAs)/Tax Information Exchange Agreements (TIEAs) / Multilateral Conventions.

(f) Proactively furthering global efforts to combat tax evasion/black money, *inter alia*, by joining the Multilateral Competent Authority Agreement in respect of Automatic Exchange of Information and having information sharing arrangement with USA under its Foreign Account Tax Compliance Act (FATCA).

(vii) The Income Declaration Scheme, 2016 was introduced by the Government to provide one-time opportunity to all persons to declare such income which had not been correctly declared in earlier years. The Scheme closed on 30.09.2016 and about 71,726 declarations disclosing undisclosed income of Rs.67,382 crore were made under this scheme. The first installment of payment under the Scheme was due on 30.11.2016 and the amount collected under the Scheme till 07.02.2017 is about Rs.6,900 crore.

<u>Indirect Taxes</u>

The various steps taken to widen/deepen the tax base and increase tax to GDP ratio are as follows:-

Customs and Central Excise:

- Clean Energy Cess [renamed as Clean Environment Cess] levied on coal, lignite and peat was increased from Rs.200 per tonne to Rs.400 per tonne.
- Infrastructure Cess @ 1% / 2.5% / 4% was levied on certain specified motor vehicles.
- Excise duty on Aerated waters, lemonade and other waters, containing added sugar or other sweetening matter or flavoured was increased from 18% to 21%.
- Additional Excise Duty on cigarettes was increased on non-filter and filter cigarettes of various lengths increased in Budget 2016-17 and Budget 2017-18.
- The specific rates of Excise duty on Cigar and cheroots, Cigarillos, Cigarettes of tobacco substitutes, Cigarillos of tobacco substitutes and other forms of tobacco substitutes was increased in Budget 2016-17 and Budget 2017-18.
- Excise duty and additional excise duty on Gutkha, chewing tobacco (including filter khaini), jarda scented tobacco, Unmanufactured tobacco and pan masala was increased in Budget 2016-17 and Budget 2017-18 respectively. Accordingly, the duty payable per machine per month for each of these tobacco products was notified.
- Excise duty on Aviation turbine fuel [ATF], other than for supply to aircraft under the Regional Connectivity Scheme, was increased from 8% to 14%.
- Excise duty of 2% (without CENVAT credit) and 12.5% (with CENVAT credit) was imposed on branded readymade garments and made up articles of textiles of retail sale price of Rs.1000 or more. Also, the tariff value was increased from 30% of the retail sale price to 60% of the retail sale price.
- Excise duty of 1% (without CENVAT credit) and 12.5% (with CENVAT credit) was imposed on Articles of Jewellery [excluding silver jewellery, other than studded with diamonds/other precious stones].

- Customs duties exemption on direct imports of specified goods for defence purposes by the Government of India or State Governments was withdrawn with effect from 01.04.2016.
- Basic Customs Duty on Cashew nuts in shell was increased from Nil to 5%.

<u>Service Tax:</u>

- In Budget 2015-16, the Service Tax rate was increased from 12 per cent plus Education Cesses to 14 per cent. The 'Education Cess' and 'Secondary and Higher Education Cess' were subsumed in the revised rate of Service Tax. Thus, effective increase in Service Tax rate has been from 12.36 per cent (inclusive of cesses) to 14 per cent. The new Service Tax rate came into effect from 1st June, 2015.
- Swachh Bharat Cess on taxable services, with the objective of financing and promoting Swachh Bharat initiatives, was imposed with effect from 15th November, 2015 at the rate of 0.5 per cent on taxable value of all taxable services which were not covered in negative list or were not otherwise exempt. Swachh Bharat Cess is not integrated in the Cenvat Credit Chain. Therefore, credit of SBC cannot be availed. Further, SBC cannot be paid by utilizing credit of any other duty or tax.
- The Negative List entry that covers "admission to entertainment event or access to amusement facility" was omitted [section 66D (j)]. Consequently, the definitions of "amusement facility" [section 65 B (9)] and "entertainment event" [section 65B(24)] were also omitted. The implication of these changes were as follows:-

  (a) Service Tax has been levied on the service provided by way of access to amusement facility providing fun or recreation by means of rides, gaming devices or bowling alleys in amusement parks, amusement arcades, water parks and theme parks.

  (b) Service tax has been levied on service by way of admission to entertainment event of concerts, pageants, musical performances concerts, award functions and sporting events other than the recognized sporting event, if the amount charged is more than Rs. 500 for right to admission to such an event.

- The entry in the Negative List that covered service by way of any process amounting to manufacture or production of goods [section 66D (f)] was pruned to exclude any service by way of carrying out any processes for production or manufacture of alcoholic liquor for human consumption. Consequently, Service Tax was levied on contract manufacturing/job work for production of potable liquor for a consideration.
- Services provided by Government or a local authority, excluding certain services specified under clause (a) of section 66D, were covered by the Negative List. Service Tax applied only on the "support service" provided by the Government or local authority to a business entity. An enabling provision was made, by amending section 66D (a)(iv), to exclude all services provided by the Government or local authority to a business entity from the Negative List. Consequently, the definition of "support service" [section 65 B (49)] has been omitted. This provision came into effect from 1st April, 2016. Accordingly, inter-alia, the following services provided by the Government or local authority to a business entity (except the services that are specifically exempted, or covered by any another entry in the Negative List) were made liable to service tax:

  Service by way of assignment of right to use radio frequency spectrum against upfront payment, spectrum-user-charges etc.service by way of grant of license for exploration of petroleum and mineral resources or any other commercial activity against consideration in the form of royalty, profit petroleum surface rent, dead rent, license fee etc.

  These services provided by Government to business entities have been made leviable to Service Tax with effect from 1.4.2016.
- Exemption available on specified services of construction, repair, maintenance, renovation or alteration service provided to the Government, a local authority, or a governmental authority (vide S. No. 12 of the notification No. 25/12-ST) was limited only to,-

  (a) a historical monument, archaeological site or remains of national importance, archeological excavation or antiquity;

canal, dam or other irrigation work; and

pipeline, conduit or plant for (i) water supply (ii) water treatment, or (iii) sewerage treatment or disposal.

- Exemption to construction, erection, commissioning or installation of original works pertaining to an airport or port was withdrawn (S. No 14 of the notification No. 25/12-ST).
- Exemption to services provided by a performing artist in folk or classical art form of (i) music, or (ii) dance, or (iii) theatre, was limited only to such cases where amount charged is upto Rs 1,00,000 for a performance (S. No 16 of notification No. 25/12-ST).
- Exemption to transportation of food stuff by rail, or vessels or road was limited to food grains including rice and pulses, flour, milk and salt.
- Exemptions were withdrawn on the following services:
  (a) services provided by a mutual fund agent to a mutual fund or assets management company,
  (b) distributor to a mutual fund or AMC,
  (c) selling or marketing agent of lottery ticket to a distributor.
- Krishi Kalyan Cess (KKC) was imposed on all the taxable services at a rate of 0.5% on the value of such taxable services has been imposed vide section 161 of the Finance Act, 2016. KKC has come into effect from 1st June, 2016. Amount collected from this cess shall be used for financing the initiatives relating to improvement of agriculture and welfare of farmers. Service providers can claim input and capital goods credit of KKC paid on input services. However, Cenvat credit of KKC paid on input services is not available to manufacturers.
- The Negative List entry that covered 'service of transportation of passengers, with or without accompanied belongings, by a stage carriage' was omitted [section 66D (o)(i)]. Service tax was made leviable on transportation of passengers, with or without accompanied belongings, only by air-conditioned stage carriage at the same level of abatement as applicable to the transportation of passengers by a contract carriage i.e. 60 per cent without credit of inputs, input services and capital goods.

- The entry in the Negative List that covered ‘services by way of transportation of goods by an aircraft or a vessel from a place outside India up to the customs station of clearance’ [section 66D (p)(ii)] was omitted. Thus, services by way of transportation of goods by vessel were brought under Service Tax net.
- The following changes were made in Notification 25/2012-ST:
  (a) Exemption to construction, erection, commissioning or installation of original works pertaining to monorail or metro, in respect of contracts entered into after 1st March 2016 has been withdrawn.
  (b) Exemption to the services of transport of passengers, with or without accompanied belongings, by ropeway, cable car or aerial tramway has been withdrawn.
- Withdrawal of exemption from service tax on provision of Online Information and Database Access or Retrieval (OIDAR) services, with effect from 1st December, 2016, which are received from a provider of service located in non-taxable territory (cross-border supply of services) by government, local authority, governmental authority, or an individual in relation to any purpose other than commerce, industry or any other business or profession.
- Services provided by person located in non-taxable territory to a person located in non-taxable territory are exempt from service tax. However, such exemption to import freight service when provided by a foreign flag ship to a foreign charterer with respect to goods destined for India has been withdrawn w.e.f. 22nd January, 2017.
- The Negative List entry in respect of the “services by way of carrying out any process amounting to manufacture or production of goods excluding alcoholic liquor for human consumption”, is being omitted.

In spite of the introduction of negative list and reducing the number of exemptions, the service sector is still not taxed comprehensively owing to services specified in negative list which are not taxable or exemptions by way of notifications or due to truncated tax base (service tax on abated value). This is a major obstacle in increasing the indirect tax-GDP ratio. The problem would be partly solved in the GST regime with the entire value chain being subjected to both Central GST and State GST. It is still not clear as to what would be the fate of exemptions. Ideally, most of the exemptions, if not all, ought to be phased out in the GST regime which would increase the indirect tax GDP ratio in a non-distortionary and neutral manner.

(ii) Quantum of Non-Filers:-

Regarding the number of non-filers of taxes, actions taken against them and initiatives to bring those non-filing individuals/entities within the tax net, the Ministry vide their reply stated as under:-

<u>Direct Taxes</u>

About **1.37 Crore** non-filers with potential tax liability have been identified under Non-Filer Monitoring System.

More than **95 Lakh** returns have been filed by the target segment and self-assessment tax of about **₹ 16,500 Crore** has been paid.

As regards action taken to bring to tax net individuals/entities remaining out of the tax net, the following measures have been taken by the Government:

(i) The Income Tax Department has implemented the Non-Filer Monitoring System (NMS) which analyses and assimilates all in-house information as well as transactional data received from third-parties, including Annual Information Return (AIR), Tax Deduction at Source (TDS) and Tax Collection at Source (TCS) statements, Central Information Bureau (CIB) data etc. to identify such persons/entities who have undertaken high value financial transactions but have not filed return.

The Non-filers Monitoring System (NMS) was implemented as a pilot project to prioritise action on non-filers with potential tax liabilities. Data analysis was carried out to identify non-filers about whom specific information was available in AIR, CIB data and TDS/TCS Returns.

The number of non-filers with potential tax liabilities identified in various NMS cycles is as under:

- NMS cycle 1 (2013): **12.19 lakh**
- NMS Cycle 2 (2014): **22.09 lakh**
- NMS Cycle 3 (2015): **44.07 lakh**
- NMS Cycle 4 (2015): **58.95 lakh**

Following steps have been taken on identified non-filers:

(a) Rule based algorithms were applied to classify the cases as P1, P2, P3, P4 and P5 priority ratings (P1 being the highest priority) for graded monitoring.

(b) Compliance Management Cell (CMC) was set up for sending letters and capturing responses from the non-filers.

(c) Bulk letters were sent to PAN holders communicating the information summary and seeking to know the submission details of Income tax return.

(d) An online monitoring system was implemented to ensure that information related to non-filers is effectively used by the field formation.

(e) Standard Operating Procedures (SOP) was issued to ensure that the field formations maintain consistency in their approach.

(f) Recently, NMS Cycle 5 has identified **67.54 lakh** potential non-filers for AY 2015-16. These cases have been pushed to the compliance module and AIMS for field formation.

Moreover, efforts are also being made at the field level to identify potential taxpayers through taxpayer education, meeting with tax professionals and taxpayer associations, surveys, etc.

(ii) The mechanisms for collection and verification of financial information have been broadened and strengthened. These include collection of data in respect of various types of high-value transactions from banks and financial institutions and high-value expenditure from commercial establishments in form of Statement of Financial Transaction (SFT). Besides, various legislative measures have been taken to increase the tax base. These include expansion of scope of TDS and TCS by bringing more and more taxable transactions within their ambit. Moreover, quoting of Permanent Account Number (PAN) has been made mandatory for all transactions above Rs. 2 lakh and for specified transactions in respect of property, shares, bonds, insurance, foreign travel, demat account, etc.

Indirect Taxes

For a transaction/expenditure oriented tax regime to be successful with an objective of widening tax base, preventing evasion and augmenting tax GDP ratio, it is an essential pre-requisite to have a comprehensive and robust digital transactions infrastructure in place. Although India is rapidly becoming a digitally propelled market space with the help of innumerous facilitating measures of the Government but the digital divide in the rural areas is still substantial for this tax measure to be cost effective and revenue augmenting. Therefore it is felt that transaction/expenditure oriented tax may be considered after a comprehensive and robust digital infrastructure is put in place and digital transaction constitute considerable proportion of the overall transactions in the Country.

Service tax is a destination based consumption tax and hence in that sense the present tax regime can be said to have incorporated a consumption/expenditure tax. Through a formal process of sharing of information with other statutory authorities like the Income Tax department, the department is having access to data which is followed up in order to unearth possible evasion. The advent of GST from 1-7-2017, which has a number of features to bring large number of transactions into the tax net, combined with an extensive use of information technology, is expected to improve both tax compliance as well as tax revenues.

Evasion of customs duty is tackled through a multi-pronged approach by Central Board of Excise and Customs.

- The Directorate General of Revenue Intelligence (DGRI) is an exclusive specialised organisation to combat smuggling and commercial frauds, particularly customs duty evasion. DGRI headquarters in New Delhi has Zonal, Regional and Sub-regional Units all over the country. DGRI is a premier intelligence investigation organisation that collects, collates, disseminates intelligence on smuggling and commercial frauds. It also investigates major cases of duty evasion. The Customs Overseas Intelligence Network (COIN) Units situated at different countries around the world also play an important role in transmitting vital information through DGRI. DGRI also issues alerts and Modus Operandi circulars from time to time to the field formations.

- There are exclusive Customs (Preventive) Zones and Customs (Preventive) Commissionerate to check smuggling and commercial frauds.
- In each Custom House at Seaports and Airports, there is Special Intelligence and Investigation Branch (SIIB). These SIIBs detects commercial frauds at local level and supplants other preventive formation such as Air Intelligence Unit (AIU), Air Cargo Intelligence Unit (ACIU) and Docks Intelligence Unit (DIU) etc.
- Directorate General of Valuation (DGoV) headquartered at Mumbai monitors valuation trends of import and export goods. DGoV maintains National Information Data Base (NIDB) on values of goods that help field officers during assessment of goods. DGoV also publishes periodical bulletin on valuation and issues alerts from time to time to the field formations.
- CBEC has also entered into a MoU with CBDT for exchange of information to address tax evasion.

In the changing economic landscape, the Government is taking measures to combat generation of black money, unaccounted money and check tax evasion. The increasing number of commercial fraud calls for continuous vigil and competent work force with specialisation in intelligence gathering, international finance and accounting, digital transactions etc. Therefore, it is needless to state that while the existing monitoring and enforcement set up like DGRI, DGoV, SIIB, ACIU, DIU etc required to be strengthened with increased manpower, there is also a need for giving exposure to the officers in these areas through suitable designed domestic and foreign training modules.

(iii) Revenue Forgone:-

Regarding revenue forgone i.e. total exemptions and incentives provided for direct as well as indirect taxes, the Ministry vide their reply stated as under:-

Direct Taxes

The revenue impact of various tax exemptions and incentives (Revenue Foregone) provided for direct taxes is as under:

(Rs. in Crore)

Particulars	Revenue Impact of tax incentives in 2013-14	Revenue Impact of tax incentives in 2014-15	Revenue Impact of tax incentives in 2015-16	Projected Revenue Impact of tax incentives in 2016-17
Corporate Income-tax	57793.0	65067.21	76858	83492
Personal Income-tax	35254.1	53525.83	61800	80034
Total	**93047.1**	**118593.04**	**138658**	**163526**

Sector-wise details of revenue foregone are not maintained as the same exemption may be availed by various sectors. Moreover, certain exemptions are also available to individual taxpayers/ salaried employees, who do not belong to any specific sector.

Indirect Taxes

Customs and Central excise duty exemptions are extended to goods in general. The revenue impact of tax incentives on account of exemptions/ concessions from customs and excise duty for F.Y.2013-14, F.Y.2014-15, F.Y.2015-16 and F.Y.2016-17 is as under:

(Rs. In crore)

Financial Year	Revenue Impact of Tax incentives (Indirect Taxes)		
	Customs Duty	**Excise Duty**	**Total**
2013-14	2, 60, 714	1, 96, 223	**4, 56, 937**
2014-15	2, 38, 967	1, 96, 789	**4, 35, 756**
2015-16*	69, 259	79, 183	**1, 48, 442**
2016-17 [Estimated]*	77, 978	76, 844	**1, 54, 822**

(iv) Refunds:-

Regarding quantum of refunds made separately indirect and direct taxes for last three financial years (including the current financial year) and interest paid there upon, the Ministry vide their reply stated as under:-

<u>Direct Taxes</u>

The details of quantum of refunds of direct taxes during last three financial years and the current financial year are as under:-

(Rs. in crores)

Financial Year	Quantum of Refund
2013-14	89,060
2014-15	1,12,184
2015-16	1,22,651
2016-17 (**upto 31.01.2017**)#	1,40,979

Source: Pr.CCA,CBDT

#Provisional

Data of interest paid on refunds (u/s 244A of the Income Tax Act, 1961), for last three financial years is as under:-

(Rs in ₹ Crore)

Sl. No.	Financial Year	Number of Assessments	Amount of Interest Paid on Refunds
1.	2013-14	4438735	6582.01
2.	2014-15	4158850	5263.55
3.	2015-16	6379508	6825.09
4.	2016-17	Data not available	Data not available

<u>Indirect Taxes</u>

Quantum of refunds made in respect of indirect taxes for last three financial years (including the current financial year) is as below:-

(In Rs. Crore)

Year	Customs	Central Excise	Service Tax	Amount
2013-14	18406	24598	2327	45331
2014-15	23179	30734	2866	56779
2015-16	26981	39941	5913	72835
2016-17 (Upto Dec.17)	18299	24233	4877	47409

No interest on refunds was paid.

(v) Pendency of Court Cases regarding Arrears:-

Regarding trends in pendency of cases of arrears in various courts/tribunals, the Ministry vide their reply stated as under:-

Direct Taxes

In so far as the first part of information (Status and trend in pendency of concerned cases of arrears at tribunals/courts for last three years) is concerned the data for the same is as under:

Pendency of Appeals at various forums for the last three years.				
F.Y	**ITAT**	**HC**	**SC**	**Total**
	Cases	Cases	Cases	Cases
2013-14	35,266	35,696	5,960	76,922
2014-15	37,506	34,281	5,661	77,448
2015-16	32,834	32,138	5,399	70,371

(Source: R&S Wing)

It is seen that numbers of cases at various forums have decreased in the F.Y 2015-16. (The number of cases pending before ITAT for 2016-17 as reported by ITAT registrar is 90344, while the figures from 2013-14 to 2015-16 are as reported by R&S Wing of CBDT is making efforts to get data of pendency of cases before ITAT reconciled)

In so far as the second part of information (quantum of tax assessed has been upheld/quashed by the appellate courts/tribunal authorities during the last three years) it may be noted that the data in this regard is not maintained. However, the data of amount locked in appeals during the last three years is as follows:

Amount locked up in appeals in various forums for the last three years. (Rs. in crores)				
F.Y	**ITAT**	**HC**	**SC**	**Total**
	Amt.	**Amt.**	**Amt.**	**Amt.**
2013-14	143,254	33,128	3,201	179583
2014-15	145,534	37,683	4,654	187871
2015-16	135,983	161,417	7,091	304491

(Source: R&S Wing)

Indirect Taxes

The number of cases upheld and rejected by various fora and the amount involved therein is given below:-

Appeals upheld & quashed for last three financial year

FORUM	F.Y.	UPHELD*		REJECTED**	
		No.	Amt. (in Lakhs)	No.	Amt. (in Lakhs)
SUPREME COURT	2014-15	69	NA	272	NA
	2015-16	274	103922	816	235200.09
	2016-17	69	27085	276	86700.24
HIGH COURT	2014-15	1017	NA	2911	NA
	2015-16	1064	291036	3128	656397.19
	2016-17	724	90663	2496	474784.59
CESTAT	2014-15	3256	NA	6256	NA
	2015-16	5229	900181	6232	1975361.24
	2016-17	5413	683273	12320	808482.43

NA-Not Available

*UPHELD = ALLOWED (DEPT) +PARTLY ALLOWED (DEPT)+REMANDED (DEPT) +REJECTED (PARTY)

**REJECTED = ALLOWED (PARTY) + PARTLY ALLOWED (PARTY) +REMANDED (PARTY) + REJECTED (DEPT)

NOTE:

1. For FY 2016-17-Data has been provided till December.
2. For FY 2015-16 Data is provided as per record available and not from MPR.
3. For FY 2014-15 Bifurcation of amount involved in appeals {Allowed, Rejected, Partly Allowed, Remanded} is not available and hence shown Zero (0) above.

PENDENCY OF APPEALS – AS ON 31.12.2016

Sl. No.	Forum	Department Appeal		Party Appeal		Total	
		No.	Amt. (in Lakhs)	No.	Amt. (in Lakhs)	No.	Amt. (in Lakhs)

1	Supreme Court	1838	1263841	1076	623690	2914	1887531
2	High Court	5564	1429072	8275	1998526	13839	3427598
3	CESTAT	17186	2792197	67900	15731247	85086	18523444
	Total	**24588**	**5485109**	**77251**	**18353463**	**101839**	**23838573**

(vi) Searches, Seizures and Surveys:-

Regarding quantum of searches, seizures and surveys made during the last three financial years , the Ministry vide their reply stated as under:-

Direct Taxes

Searches and survey are amongst the main evidence collecting mechanisms that are used in cases wherein credible information about tax evasion is in possession of the Income-tax Department (ITD). Before initiating a search and seizure operation, the ITD has to arrive at a reasonable belief that the subject person is not paying the due taxes commensurate to its income. Similarly, surveys are tools to undertake on the spot verification of affairs of the business having bearing on income. The Investigating Officer who conducts the search prepares a report appraising the evidences gathered, documents seized, etc., and forwards the same to the Assessing Officer to initiate assessment proceedings. Surveys could be conducted either by the Assessing Officer concerned or by officers of the Investigation Directorate. The evidence collected through searches and surveys along with other evidence gathered/collected from various other sources by the ITD is used for determination of tax liability, if any, through the quasi-judicial process of assessment of income of the subject person. Such assessment of income is subject to appeals at different stages before various authorities including Hon’ble Supreme Court, as provided in the law. The determination of actual tax liability is done after completion of all the appellate proceedings. There is a time-lag between the search/survey, passing of the assessment orders and disposal of all the appeals relating to the subject person. The time-lag could spread over several financial years. In view of this, data on actual tax yield of searches and surveys separately is not maintained centrally. However, the ITD has initiated a new information technology based project – Income Tax Business Application (ITBA), which is expected to capture the information on tax realisation from search and survey cases electronically, even at intermediate stages. The initial Phases 1

& 2 of the Investigation Module of the ITBA has been rolled out in the current F.Y. 2016-17.

The statistics with regard to preliminary outcome of the searches and survey conducted during the last three financial years are given below:

<u>Search & Seizure</u>:

[in Rs. crore]

Financial Year	Number of cases	Total assets seized	Undisclosed income admitted u/s 132(4) of the Income-tax Act, 1961
2014-15	545	761.70	10288.05
2015-16	445	712.68	11066.24
***2016-17 (up to Dec, 2016)**	848	1133.37	11856.62

*** Provisional figures**

Surveys:

(in Rs. crore)

Financial Year	No. of surveys conducted	Undisclosed income detected
2014-15	5035	12820.33
2015-16	4422	9654.80
***2016-17 (upto Dec, 2016)**	5015	9454.47

*** Provisional figures**

<u>Indirect Taxes</u>

Details of tax evasion cases in respect of indirect tax cases and amount involved therein is as below:-

Service Tax

_(Rs in Crores)

Year	No. of SCNs issued	Amount demanded	Actual & Final Tax Realization
2013-14	4288	10705.60	The tax realizations happen after the adjudication and process of appeals. Hence, the realizations in a particular year cannot be correlated with the SCNs issued in the year.
2014-15	3402	10905.42	
2015-16	3545	14482.24	
2016-17 **(upto Dec, 2016)**	2871	5733.93	

Central Excise

Year	No. of Cases	Amount involved	Recovery during the period	Actual & Final Tax Realization
2013-14	2606	4736.59	812.87	The tax realizations happen after the adjudication and process of appeals. Hence, the realizations in a particular year cannot be correlated with the cases in the year.
2014-15	2123	4334.80	546.16	
2015-16	2366	5296.84	803.78	
2016-17 **(upto Oct, 2016)**	1193	2990.00	377.00	

Customs

(Rs in Crores)

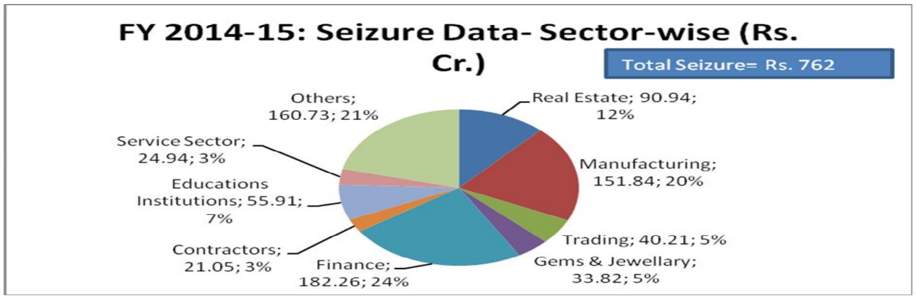
Seizures	No. of cases	Value	No. of cases	Value	No. of cases	Value	No. of cases	Value
In Outright Smuggling	27519	1555.44	28999	20243.29	38181	2044.95	28879	3571.81
In Commercial Frauds	649	2507.2	581	18377.16	653	1703.11	946	1590.98
Commercial Fraud cases detected	**No. of cases**	**Duty Involved**	**No. of cases**	**Duty Involved**	**No. of cases**	**Duty involved**	**No. of cases**	**Duty Involved**
	4625	3975.16	1926	4470.34	1939	1198.65	2042	4314.80
Duty Recovered	**No. of cases**	**Duty recovered**	**No. of cases**	**Duty recovered**	**No. of cases**	**Duty recovered**	**No. of cases**	**Duty Recovered**
	4630	1609.39	5694	1236.78	3198	3235.60	1774	1366.27

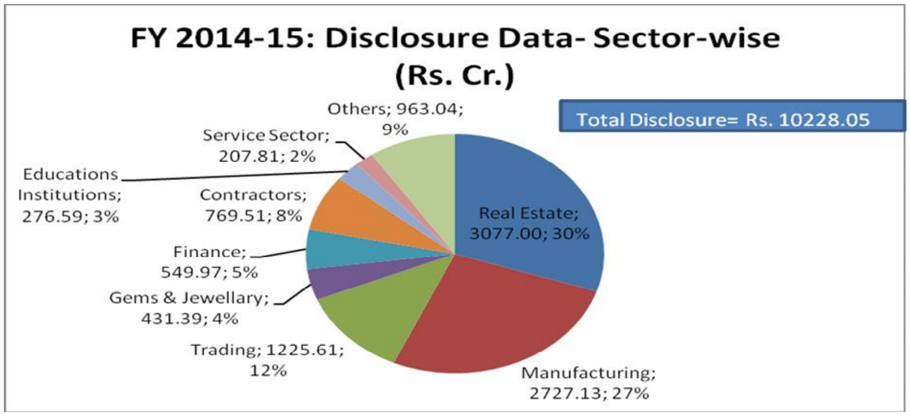
(vii) Maintenance of Data:-

On being asked about: (a) Data regarding specific sectors such as, private hospitals, educational institutions including coaching institutions etc. taken up for income tax survey and special assessment thereof and income tax detected/realised therefrom; (b) Details of income detected, assessed and tax realised from 360° profiling of 'high value transactions', the Ministry vide their reply stated as under:-

Direct Taxes

Data regarding specific sectors in respect of surveys conducted by the Income Tax Department is not maintained centrally. However, the sector-wise data of initial outcome of search & seizure conducted by the ITD during F.Y. 2014-15 and 2015-16 is as under:





The Ministry further submitted:

<u>Direct Taxes</u>

360 degree profiling of a taxpayer is the mechanism to identify and link all transactions relating to that taxpayer in the database of the Income Tax Department. Based on the profiling results, a taxpayer is treated as high-risk or otherwise and appropriate action against him under the Income-tax Act is taken. Since this is only a process of aggregating all information/ intelligence against a taxpayer, there is no direct linkage between the 360 degree profiling and income detected.

(viii) Reforms in Tax Administration:-

With a view to look into desired reforms in our tax administration systems the committee would like to go through the following submissions and data furnished by the Ministry:

Direct Taxes

Details of total tax collections for last three financial years and current year for various Major Heads and Minor Heads of direct tax collections are as under:

Major Heads

(Rs. in crore)

Financial year	Personal Income Tax#	Corporate Tax#	Securities Transaction Tax (STT)#	Dividend Distribution Tax (DDT)*	Wealth tax#
2013-14	237840	394678	5017	33119	1008
2014-15	258335	428925	7398	39264	1086
2015-16	280287	453228	7350	47033	1079

* Source: OLTAS

Source: Receipt Budget

Note: Dividend Distribution Tax is not a separate direct tax but a minor head under Corporate Tax and Income Tax

(Rs. in crore)

Financial year	Personal Income Tax	Corporate Tax	Securities Transaction Tax (STT)	Dividend Distribution Tax (DDT)	Wealth tax
2016-17 **(Up to 31.01.2017)**	249285	326113	6523	35235	107

@ Source: Pr.CCA,CBDT

Minor Heads

(Rs. in crore)

Financial year	Tax Deducted at Source	Advance Tax	Regular Assessment (Scrutiny) Tax
2013-14#	248547	292522	72528
2014-15#	259106	326525	80189
2015-16*	287412	352899	68737
2016-17## (Up to 31.01.2017)	285082	283401	35183

#Source: Reports of C&AG of different years *Source: Statistical data O/o Pr.CCA, CBDT.

Source: OLTAS

Slab-wise Income Tax collected and number of assessees under various heads:

Slabs (Rs. In lakh) (based on Total Income (After Deductions))	Number of Returns Efiled by Taxpayers	Number of Taxpayers reporting Salary Income	Number of Taxpayers reporting House Property Income/ Loss	Number of HUF Taxpayers	Number of Taxpayers reporting BUSINESS Income	Number of Taxpayers reporting PRESUMPTIVE_BUSINESS	Number of Professional Taxpayers
TI <= 3L	220,69,850	66,16,030	11,16,662	6,36,215	126,10,642	59,41,886	10,56,698
TI > 3L AND <= 5L	88,64,976	51,92,054	6,67,931	1,49,458	34,66,227	11,03,026	3,39,587
TI > 5L AND <= 10L	53,32,468	38,71,227	4,64,730	94,865	14,09,974	2,10,231	1,88,355
TI > 10L AND <= 20L	16,83,359	12,25,439	2,11,684	23,151	4,68,782	17,400	88,273
TI > 20L AND <= 50L	6,37,357	4,27,202	1,19,051	6,683	2,11,497	2,700	38,331
TI > 50L AND <= 1C	1,44,859	76,334	35,521	1,638	67,424	254	9,502
TI > 1C	1,03,749	40,247	26,143	763	58,995	53	4,670
	388,36,618	174,48,533	26,41,722	9,12,773	182,93,541	72,75,550	17,25,416

Indirect Taxes

Indirect tax collections made during the last three financial years (including the current financial year) are as follows:

(Rs. in Crore)

Sl. No.	Tax head	Actuals 2013-14	Actuals 2014-15	Actuals 2015-16	Actuals 2016-17 (April to Dec.)
1	Customs	172085	188016	210338	167255
2	*Central Excise	168484	1872300	286235	279917
3	Service Tax	154778	167969	211414	183800

Source: Receipt Budget/NSDL/PrCCA

*Exclusive of cesses not administered/ collected by D/o Revenue.

Direct Taxes

For the Assessment Year 2015-16, the number of individual taxpayers is 5,37,43,407, which works out to 4.3 % of the total population of about 125 Crore.

On 15 February 2017, the Secretary (Department of Revenue), Ministry of Finance while deposing before the Committee made certain observations/submissions which are as follows:

(a) "Yes it is true that we are getting about 90 percent of the income of Income tax from TDS and advance tax" and

(b) "Only 76 lakh individuals show income of more than Rs. 5 lakh of which 56 lakh people are salaried people. Can you believe that in this country only 20 lakh people show income of more than 5 lakh"

PART-II

Recommendations and Observations:

BUDGETARY ALLOCATIONS AND UTILIZATIONS

1. For the Demand Number 33 relating to Department of Revenue, the Committee have taken note of decrease in budgetary provisions from Rs. 11925.01 at BE stage for the FY 2016-17 to Rs. 11108.36 crore at RE stage of FY 2016-17, whereas only Rs. 837.28 crore for the FY 2017-18 has been provided at BE stage on account of "no requirement of CST compensation to the States" for the upcoming financial year. However, the Committee are constrained to note that the Department has been persistently increasing the allocation figures under this head and then eventually surrendering the same at the end of the year. The Committee are displeased to observe that under Demand No. 33, only 55.96% (of RE) of funds have been utilized till 31.12.2016. This may thus lead to the 'March Rush' for fund utilization, which cannot but reflect poorly upon efficiency of the Department. The Committee expect that as the GST bill is rolled out and becomes fully operational during the FY 2017-18, the Ministry must provide adequate resources to meet the consequent demands, such as compensation for the possible losses to the States. For the Demand Number 34 (Direct Taxes), for FY 2016-17, the allocation has been enhanced from Rs. 5389 crore at BE stage to Rs. 5704 crore at RE stage. And again, only 74 per cent of allocated fund has been utilized till 31.12.2016. Especially with current budgetary reforms like advancement of budget, the possibility of maximum utilisation of the allocated funds at the fag end gets diminished. However, a similar practice is being reflected in case of Demand No. 35 (Indirect Taxes), whereby only about 71 per cent of RE stage fund of Rs. 5550.50 crore has been utilised till 30.11.2016. Therefore, the Committee urge the Ministry to review and remodulate the mechanism for assessing figures at BE as well as RE stage. Further, there is also need for fixing accountability for estimation as well as execution processes carried out in this regard, so

that the practice of over-estimation and under-utilisation is curbed comprehensively at least now with the onset of budgetary reforms.

OTHER ISSUES RELATING TO DEMANDS FOR GRANTS (2017-18):

Tax-GDP Ratio and Tax Base

2. The Committee are concerned to note the rather low level of Tax-GDP ratio of our economy, which stands at 16.6 per cent. This requires to be re-visited in comparable parameters with BRICS countries. The concerns of the Committee get accentuated in the light of the fact elucidated in the Economic Survey that India's abysmally low tax to GDP ratio has been the prime factor responsible for the ever-widening income inequality, allowing less scope for the state to spend more on areas like primary healthcare and education. Further, the Committee are constrained to note that the measures adopted by the Ministry so far to address this issue, have proved to be incremental and thus insufficient. This fact gets fortified by the findings of the Shome panel (Tax Administrative Reforms Commission-TARC) that in the last ten, years though the direct tax collection has increased by more than 700, percent, the number of tax payers has merely grown by 35 per cent. Therefore, the Committee would suggest for harnessing the tax potential of un-organised sector and in particular those categories, not subject to regular TDS; making even avoidance of tax an offence at par with evasion inviting heavy penalties; prompt implementation of Goods and Services Tax (GST); doing away with unnecessary tax exemptions and case by case exemption-wise impact assessment; and arresting the rampant tax evasion in our flourishing informal market ecosystem. Further, the Committee would also reiterate their earlier recommendation of implementing various suggestions made by TARC (Tax Administration Reforms Commission) and RV Eashwar Committee on simplification and tax reforms. Efforts should also be simultaneously made to gradually move towards Tax Deductible at Source or Tax Collectible at Source, which will help widen and deepen the tax base in the most non-intrusive manner. The Committee desire to be apprised of

the future road map to tap the real potential of tax, which would enable our economy to surpass other comparable economies in raising the tax-GDP ratio.

The personal income tax collection figures made available to the Committee clearly suggest that most of the tax-payers fall in the lower income brackets. In the Budget speech 2017, it was clearly mentioned that out of a total individual taxpayers of 3.7 crore, 99 lakh show income below the exemption limit of Rs. 2.5 lakh per year and 1.95 crore show income between Rs. 2.5 lakh to Rs. 5 lakh. 52 lakh show income between Rs. 5 lakh and Rs. 10 lakh and only 24 lakh show income above Rs. 10 lakh. Of the 76 lakh individual assesses who declare income above Rs. 5 lakh, 56 lakh are from salaried class. The Committee also note that this indicates pathetic levels of tax collection from non-salaried class and the lax effort of income tax department in ensuring tax compliance. This is indicative of a broader tax-base at the bottom only in terms of number but not actual tax collections. Such an approach of adding the numbers at the bottom cannot obviously result in even a semblance of tax buoyancy, as incomes would naturally stagnate at that level. This method will soon thus inevitably hit a "tax plateau", if it has not done so already. Furthermore, the Committee understand that there are about roughly 8 crore BPL families with an average of five members in a family, thus keeping approximately 40 crore persons out of the tax net. In addition, there are also about 13 crore farmer families who are exempt from tax. The Committee also find that posts in the income tax department have been created on the basis of the number of tax payers and returns rather than the actual increase in tax collections and tax buoyancy. The Committee therefore feel that if such additional posts do not bring in additional revenue, these posts should be reviewed. Therefore, the Committee would expect the Department of Revenue to overhaul their direct tax policy and the basic approach to tax buoyancy, so that the present income tax slabs and the prescribed rates of tax do not prove to be a 'dead horse', whose flogging yields very little and may rather force the honest tax payer to look for avenues to avoid/evade taxation. The Committee thus recommend a review in this regard with better calibrated

slabs and tax rates, which will support widening of tax net, bring about tax buoyancy and compliance besides being truly reflective of actually prevailing personal incomes, wealth and consumption. Accordingly, the standard deduction, which was earlier available for those drawing income under the head 'salaries' corresponding to the deductions allowed on business expenditure available under the head 'Income from Business or Profession' may be restored to a reasonable level to provide much-needed relief to the salaried class, who have been admittedly shouldering a large burden of personal income tax collections.

In this context, the Committee would like to point out that the methodology of computing tax should be reviewed and made more just and fair. For example, those assesses declaring agricultural income along with other income end up in a higher tax bracket due to the addition of exempted agricultural income to other income for determining the slab, whereas those who do not declare "any other income" get full exemption for their agricultural income.

> **As suggested by the Committee earlier, the excise duty structure for products such as pan masala etc. should also be rationalized in a manner that does not result in needless complexity and revenue loss to government. Adequate caution should be exercised so that tax rates does not incentivise or become an instrument for illicit trade.**

Quantum of Non-Filers

3. The Committee are unhappy to observe the persistent increase in numbers of non-filers with potential tax liabilities, who carried out high value transactions, discovered under the Non-Filer Monitoring System(NMS). In NMS cycle 1 (2013), the number of non-filers are 12.19 lakh, which increased to 58.95 lakh in NMS cycle 4 (2015). NMS cycle (5) for 2015-16 has identified 67.54 lakh potential non-filers. The Committee have taken note of the measures undertaken by the Ministry in this regard, such as collection of data in respect of various types of high-value transactions, various legislative measure, quoting of Permanent Account

Number (PAN) for all transactions above Rs. 2 lakh etc. However, the Committee observe that apart from meticulous and comprehensive data collection mechanism, follow up action is needed in a targeted but non-intrusive manner, without any laxity so that this trend is arrested comprehensively. Use of digital tools including linkages with Aadhar should be operationalised to check non-compliance.

Revenue Forgone

4. The Committee are alarmed to observe that despite the Government's resolve to phase out exemptions and incentives, revenue forgone in the case of corporate tax rose from Rs. 76,858 crore in FY 2016-17 to Rs. 83,492 crore in FY 2016-17. In the case of indirect taxes (customs and excise), revenue foregone increased from Rs. 1,48,442 crore to Rs. 154,822 crore over the same period. The Committee take note of the fact that the problem of exemptions on indirect taxes will be taken care of to a large extent with the onset of Goods and Services Tax regime. However, for the direct taxes, the Committee believe that the time has come for a fresh appraisal and comprehensive cost-benefit and impact assessment analysis of existing exemptions and incentives case by case and if they are not found to be serving the purpose, such exemptions straightaway need to be phased out as soon as possible. Further, the Committee would like to reiterate their earlier recommendation of early revival of the Direct Taxes Code towards this end, which would simplify, streamline and rationalise the direct taxes regime along the lines of GST. The Committee are of the view that if the reform measures outlined in the Direct Taxes Code and Tax Reform Commission / Committee are not considered and implemented, the gains accruing from GST may well be neutralized. Since the Direct Taxes Code has undergone detailed scrutiny by this Committee, it can be considered for implementation at the earliest. Bringing repeated amendments in the existing Income Tax Act would only compound matters, defeating the very objective of tax reforms.

Refunds

5. The Committee are constrained to note that the quantum of refunds has risen from Rs. 1.22 lakh crore (FY 2015-16) to Rs. 1.41 lakh crore (FY 2015-16, upto 31.01.2017) The Committee have been persistently observing that the issue of tax refunds is a case of "double jeopardy" for the exchequer. Upon seeing the figures in hand, the Committee can only reiterate that the Department of Revenue has failed to take this menace head on. The Department appears to be entangled in the vicious web of raising of unrealistic demands, and then subsequently making refunds and paying huge interest thereupon. It is high time a thorough probe is made in this regard and the tax processes are reviewed so that the need for raising unrealistic demands as also payment of disproportionately large advance tax by assesses is obviated. In this context, the Committee would reiterate their earlier recommendation that the interest component involved in tax refunds should be reflected in the Union Budget so that it passes through the Parliament scrutiny and has a deterrent effect on the concerned officials.

Pendency of Court Cases regarding Arrears

6. The Committee observe with dismay that the data supplied by the Ministry indicate that for direct taxes, number of appeals pending in various courts/tribunals stands at 70,371 and amount locked in such appeals is to the tune of Rs. 3,04,491 crore, whereas, for indirect taxes, the number of appeals stood at 1,01,839 involving a whopping figure of Rs. 238385.73 crores. In the light of such glaring facts, the Committee would like to recommend for an immediate and thorough study by the Ministry to introduce the National Litigation Policy, wherein the Ministry and assesses are restrained from frivolous and speculative litigation. Further, the Committee suggest that with the current trend of reducing pendency of cases and making India a more investment friendly nation, an initiative to mediate and settle disputes with the Department may also be relied upon in as many cases as possible.

Levying of Cess and Surcharge

7. The Committee would also reiterate their earlier recommendation that the practice of levying Cess and Surcharge should progressively be done away with, as their proceeds are not shared with the States and their utilisation is also not being made wholly for the intended purpose. Further, it also distorts the tax structure. Even if such a levy is warranted, it should be done only as an interim and provisional measure for a limited period and in respect of higher levels of incomes, with a threshold of say Rs. 50 lakh or above. Thereafter, it should be withdrawn or subsumed if necessary in the regular tax.

Curbing of Unaccounted / Black Money

8. While appreciating the steps taken by the Government in curbing the menace of unaccounted or black money through measures such as transparency in electoral funding, setting limit in cash transaction etc., the Committee hope that these measures will be implemented in their letter and spirit with concrete outcomes there from. Further, the Committee would like to be apprised about the extent of unaccounted income detected and tax realised from the two amnesty schemes implemented by the Government, one before demonetisation and the other subsequently. The Committee recommend that the Government should also present a detailed White Paper to Parliament indicating all details on unaccounted money / wealth stashed abroad and also income generated / concealed within the country and the extent to which Justice M.B. Shah Task Force recommendations have been implemented.

Searches, Seizures and Surveys

9. The Committee note that searches and surveys are amongst the main evidence collecting mechanisms that are used in cases where tax evasion is involved. However, they note that there is a time-lag between

the search/survey and passing of the assessment orders and final disposal of all the concerned appeals, which defeats its intended purpose. Further, going through the data in hand, the Committee observe that the rise in quantum of detection of undisclosed income has generally not been satisfactory. Therefore, the Committee would recommend for speedy assessment orders, apart from infusing more prudence and rationality to these searches and surveys, so that it is prevented from becoming an instrument of harassment and even corruption. There should be reasonable outcomes from these operations. Furthermore, confidentiality of documents seized should be strictly maintained and, officials should be made accountable, if leakages are made or unverified information is disclosed to the press. The Committee may also be apprised of the number of closures that have been made in respect of these operations during the last three years. The Committee would also take this opportunity to express their concern regarding the Finance Bill, 2017 proposal empowering tax officials not to disclose the 'reason to believe' to conduct a search, which may invite criticism of high-handedness and arbitrariness. The Committee would, therefore, like the Ministry to re-consider this proposal with a view to enhancing tax payer's confidence and trust.

Maintenance of Data

10. The Committee note with concern that the Department does not maintain sector/category-wise data-base on important areas of revenue operations. Such data becomes more pertinent in the light of the fact that entities such as private hospitals, private educational institutions including coaching institutions, real estate entities etc. are prone to tax avoidance or evasion. In their earlier Report, the Committee had pointed out instances of misdeclaration and evasion in the guise of agricultural income. Therefore, in the view of the Committee, a comprehensive data-base will strengthen the existing Management Information System (MIS) in the Department with visible outcomes regarding for tax monitoring, compliance and enforcement. Therefore, the Committee would suggest

that the Department should become pro-active and dynamic by going the whole hog in maintaining complete data-base, which is not a difficult proposition in this era of big data, analytics and technological advancements.

Reforms in Tax Administration

11. The Committee are of the firm view that reform is the only 'sanjeevani' which can rekindle the transformation of tax administration and eventually making our economy more progressive, vibrant and inclusive. Therefore, the Committee would like to strongly suggest the following measures which can transform our tax administration:-

(a) Widening and deepening of tax base;

(b) Increasing the focus on unorganised sectors of economies to plug evasion, and ensuring better tax collections from higher brackets of income;

(c) Efficient targeting of subsidies and phasing out of tax exemptions: The exemptions in the taxable income have grown at a much faster rate than the income. This needs to arrested as it jeopardizes tax buoyancy;

(d) Fast tracking of resolution of tax disputes as a key component of better tax administration;

(e) Implementation of Direct Taxes Code and recommendations of the TARC (Tax Administration Reforms Commission) and R.V. Easwar Committee leading to a non-adversarial and simpler tax regime.

(f) Expedite the implementation of GST by taking all necessary steps to be inclusive.

(g) Enforcing accountability of tax officials for specific acts of commission and omission.

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Minutes of the Tenth sitting of the Standing Committee on Finance (2016-17)
The Committee sat on Wednesday, the 15 February, 2017 from 1100 hrs. to 1600 hrs. in Committee Room 'D', Parliament House Annexe, New Delhi

PRESENT

Dr. M. Veerappa Moily - Chairperson

LOK SABHA

2. Shri Nishikant Dubey
3. Shri P.C. Gaddigoudar
4. Prof. Sanwar Lal Jat
5. Shri Rattan Lal Kataria
6. Shri Bhartruhari Mahtab
7. Shri Prem Das Rai
8. Prof. Saugata Roy
9. Shri Gopal Chinayya Shetty
10. Shri Kiritbhai Solanki
11. Shri Dinesh Trivedi
12. Shri Shivkumar Udasi

RAJYA SABHA

13. Shri Naresh Gujral
14. Shri Digvijaya Singh
15. Dr. Manmohan Singh

SECRETARIAT

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

PART I (1100 hrs - 1340 hrs)

WITNESSES

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2. XX XX XX XX XX XX.

The witnesses then withdrew)

A verbatim record of the proceedings has been kept

PART II (1400 hrs)

WITNESSES

Ministry of Finance (Department of Revenue)

1. Dr. Hasmukh Adhia, Secretary
2. Shri B.N. Sharma, Additional Secretary
3. Shri Udai Singh Kumawat, Joint Secretary (Rev.)
4. Mrs. Meera Swarup, Joint Secretary & Financial Adviser, (Finance)

CBDT

5. Shri Sushil Chandra, Chairman & Member (Inv.)
6. Smt. Nishi Singh, Member (Personnel)
7. Shri S.K. Sahai, Member (L&C)
8. Shri Gopal Mukherjee, Member (Revenue) & Member (A&J)
9. Shri Rajendra Kumar, Member (IT)
10. Shri S.S. Rathore, Pr. DG (Systems)
11. Shri R.R. Das, JS (TPL-I)

CBEC

12. Shri Najib Shah, Special Secretary & Chairman (CBEC)
13. Ms. Vanaja N. Sarna, Special Secretary & Member (Admn)
14. Shri Ram Tirath, Special Secretary & Member
15. Ms. Ananya Ray, Special Secretary & Member
16. Shri S. Ramesh, DG (System & Data Management)

17. Shri Sunil Kumar Sawhney, DG (HRD) & Pr. ADG (EMC)
18. Shri Alok Shukla, JS (TRU-I)
19. Shri Amitabh Kumar, JS (TRU-II)

3. At the outset, the Chairperson welcomed the Members and the witnesses to the sitting of the Committee.

4. After the customary introduction of the witnesses and their introductory remarks, the Committee took their evidence in connection with the examination of Demands for Grants (2017-18) of the Ministry of Finance (Department of Revenue). The major issues discussed during the sitting broadly related to widening and deepening of tax - base, India's low Tax-GDP ratio and its comparative position, shifting towards non-adversarial taxation regime, tapping of sectors traditionally not coming under tax net or evading the tax net, quicker dispute resolution mechanism, searches and seizures and issues related therewith, collection of cesses and surcharges, underlying distortions, anomalies with respect to tax slabs and rate of taxes, other issuing arising post-demonetisation, tax-arrears, tax refunds and interests paid thereupon, quantum of non-filers, measures for curbing black / uaccounted money, agricultural income, implementation of Direct Taxes Code, recommendations of Shome Panel, RV Eashwar Committee and Special Investigation Team (SIT) headed by Justice M.B Shah, rolling out of Goods and Service Tax (GST), ease of doing business and reforms needed in our tax administration. The Chairperson directed the representatives of Ministry of Finance to furnish written replies to the points raised by the Members which could not be answered to / adequately responded to during the discussion, within 07 days to the Secretariat.

(The witnesses then withdrew)

A verbatim record of the proceedings has been kept

The Committee then adjourned.

Minutes of the Thirteenth sitting of the Standing Committee on Finance
The Committee sat on Thursday, the 16 March, 2017 from 1500 hrs to 1545 hrs, Chamber of Chairperson, Room No. 114, Parliament House Annexe, New Delhi.
PRESENT

Dr. M. Veerappa Moily - Chairperson

LOK SABHA

2. Shri T.G. Venkatesh Babu
3. Shri Gopalakrishnan Chinnaraj
4. Shri Nishikant Dubey
5. Shri P.C. Gaddigoudar
6. Shri Shyama Charan Gupta
7. Shri Rattan Lal Kataria
8. Shri Chandrakant B. Khaire
9. Shri Bhartruhari Mahtab
10. Shri Prem Das Rai
11. Shri Gajendra Singh Sekhawat
12. Shri Gopal Chinayya Shetty
13. Shri Anil Shirole
14. Dr. Kiritbhai Solanki
15. Dr. Kirit Somaiya
16. Shri Shivkumar Udasi

RAJYA SABHA

17. Shri Naresh Gujral
18. Dr. Mahendra Prasad
19. Shri Ajay Sancheti
20. Dr. Manmohan Singh

SECRETARIAT

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

2. At the outset, the Chairperson welcomed the Members to the sitting of the Committee, thereafter, the Committee took up the following draft reports for consideration and adoption:

(i) Draft Report on Demands for Grants (2017-18) of the Ministry of Finance (Departments of Economic Affairs, Expenditure, Financial Services and Investment & Public Asset Management).

(ii) Draft Report on Demands for Grants (2017-18) of the Ministry of Finance (Department of Revenue).

(iii) Draft Report on Demands for Grants (2017-18) of the Ministry of Planning.

After some deliberations the Committee adopted the above draft Reports with some minor modifications as suggested by Members. The Committee authorised the Chairperson to finalise the Reports in the light of the modifications suggested and present the same to Parliament.

The Committee then adjourned.