

PUBLIC ACCOUNTS COMMITTEE
(1972-73)

(FIFTH LOK SABHA)

EIGHTY-EIGHTH REPORT

**[Chapter V of the Report of the Comptroller and Auditor
General of India for the year 1970-71 Union Government
(Civil)—Revenue Receipts relating to other Direct Taxes.]**



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<u>Page</u>	<u>Para</u>	<u>Line</u>	<u>For</u>	<u>Read</u>
10	2.27	7	pursued	pursued
12	-	2	ordained	ordained
20	2.60	3	investment	investment
29	4.22	last	thin	his
35	-	last	Statements	State Governments
36	4.49	3-4	interests leviable	interest is leviable
38	4.54	4	the the	the
39	4.59	8	evolve	evolved
42	5.2	6-7	Thus, the correction indicated. The Ministry, in a note, have stated:	Thus, the arrears in respect of these years have increased instead of decreasing.
46	6.5	19	concentrating	concentrating

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25-10-1972 (AN)
26-10-1972 (AN)
24-4-1973 (FN)

*Not printed (One cyclostyled copy laid on the Table of the House and five copies placed in Parliament Library).

PUBLIC ACCOUNTS COMMITTEE

(1972-73)

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SECRETARIAT

Shri Avtar Singh Rikhy—*Joint Secretary.*

Shri T. R. Krishnamachari—*Under Secretary.*

(iii)

INTRODUCTION

I, the Chairman of Public Accounts Committee as authorised by the Committee do present on their behalf this Eighty-Eighth Report of the Committee (Fifth Lok Sabha) on Chapter V of the Report of the Comptroller & Auditor General of India for the year 1970-71, Union Government, (Civil) Revenue Receipts.

2. The Report of the Comptroller and Auditor General of India for the year 1970-71, Union Government (Civil) Revenue Receipts was laid on the Table of the House on 14th April, 1972. The Committee examined paragraphs relating to other Direct Taxes at their sittings held on the 25th and 26th October, 1972. This Report was considered and finalised by the Committee at their sitting held on the 24th April, 1973. Minutes of these sittings form Part II* of the Report.

4. A statement showing the summary of the main conclusions| recommendations of the Committee is eappended to the Report (Appendix II). For facility of reference, these have been printed in thick type in the body of the Report.

5. The Committee place on record their appreciation of the assistance rendered to them in the examination of these paragraphs by the Comptroller and Auditor General of India.

6. The Committee would also like to express their thanks to the officers of the Ministry of Finance for the cooperation extended by them in giving information to the Committee.

NEW DELHI;
April 24, 1973.

Vaisakha 4, 1895 (S).

ERA SEZHIYAN,
Chairman,
Public Accounts Committee.

*Not printed. (One cyclostyled copy laid on the Table of the House and five copies placed in Parliament Library).

I
SUPER TAX|SUR-TAX

Audit Paragraph

1.1. While arriving at chargeable profits for purposes of levy of surtax, the amount of profits and gains derived from new industrial undertaking on which no income-tax is payable has to be excluded from the total income computed under the Income-tax Act. It is also laid down in the Surtax Act that where a part of the income, profits and gains of a company is not includible in its total income computed under the Income-tax Act, its capital should be ascertained in the manner laid down in the Surtax Act, after deducting that portion of it which is attributable to such profits. Similar provision existed in the Super Profits Tax Act, 1963.

1.2. Profits and gains arising from new industrial undertakings are entitled to relief by way of rebate of tax for the assessment years up to 1967-68 and by way of straight deductions thereafter to the extent of 6 per cent of the capital employed. In the Super Profits tax|Surtax assessments of five companies for the assessment years 1963-64 to 1969-70, though the profits arising from new industrial undertakings were correctly excluded from chargeable profits, the capital of the companies was not proportionately reduced. This led to short-levy of Super Profits tax/Surtax of Rs. 9,08,250. In one case involving revenue of Rs. 33,515, the Ministry have accepted the mistake. Reply of the Ministry for the remaining cases is awaited.

[Paragraph 68(i) of the Report of the Comptroller and Auditor General of India for the year 1970-71 Union Government (Civil) Revenue Receipts.]

1.3. The Committee pointed out that in these cases from 1963-64 to 1969-70, though the profits arising from non-industrial undertakings were correctly excluded from chargeable profits, the capital of the companies was not proportionately reduced. The Member, CBDT, replied: "The basic position is that the department's view is that where there is a deduction, the capital should not be reduced, but where an amount is not liable to tax at all under the Act, to that extent of that amount, the capital should be reduced. That question is being referred to the Law Ministry."

1.4. According to Audit paragraph, the Ministry have accepted the mistake in one case involving a revenue of Rs. 33,515. The Committee were informed that even in this case, the matter was being re-opened. Asked why, when once the mistake was accepted by the Ministry, it wash being re-opened, the Member, CBDT replied: "The Ministry at first accepted the mistake and sought to rectify the assessment. This was disputed by the assessee. The position is that

in determining whether capital should be reduced when some item of income is not liable to tax, the question arose as to whether this deduction or the item not includible in the total income would refer to those items that are specified in the Act under Section 10 and not an item which will normally be assessable and is liable to deduction and therefore the capital should be reduced on that score." The Chairman, CBDT intervened to say: "...this question was being examined from the legal point of view by our section called TPL Section....".

1.5. The Committee were informed that three out of five cases were referred to the Ministry on 3rd August, 1971 and the remaining two, on 30-10-1971. Only one case which was referred to on 30-10-71 was accepted by the Ministry. The Committee desired to know the position of the other four cases. The Member, CBDT stated that rectification was held over pending clarification of this issue. When enquired whether a reply, explaining the position of the four cases was sent to Audit, the Finance Secretary, replied in the negative. Elaborating further, he continued: "They have held back these cases pending legal clarification. But Audit should have been informed of the position so that they could take note of the position. This is an omission."

1.6. The Committee desired to know the action taken by the Department in respect of five cases, stating the present position. The Committee also enquired whether, in the light of the audit observation on the assessments of five companies in different wards, any general review of surtax assessments of such companies having 'tax holiday' income had been ordered. The Ministry, in a note, have stated: "The principle of interpretation involved in this para has been referred to the Ministry of Law finally on 9-1-1973 and their opinion is awaited. The Audit have been approved of this. Further action will be taken in consultation with Audit, on receipt of the Law Ministry's opinion and the position as desired above intimated to the Committee."

1.7. According to Audit proportionate capital should be reduced from total capital of a company when income from new industrial undertakings is excluded from chargeable profits for the purpose of calculation of sur-tax. The Ministry are, however, of the view that when there is a deduction the capital should not be reduced but where an amount is not liable to tax at all under the Act, the proportionate capital should be reduced. Although the Audit objection was raised in 1971, the matter was referred to the Ministry of Law only on 9-1-1973 after the Committee's examination. The Committee cannot but deprecate such delays. They would like to know the legal opinion and the action taken on the basis thereof.

II

WEALTH-TAX

Audit Paragraph

2.1. (i) During the year 1970-71, the actual receipts under the Wealth-tax Act amounted to Rs. 15.31 crores. The following table indicates the receipts for the last five years compared with the Budget estimates.

Year	(In crores of rupees)	
	Budget Estimates	Actual receipts
1966-67	14.00	10.73
1967-68	12.00	10.70
1968-69	11.00	11.11
1969-70	12.00	15.62
1970-71	18.00	15.31

2.2. (ii) The total number of assesses in the books of the department as on 31st March, 1970 and 31st March, 1971 were as follows:

	As on 31st March, 1970	As on 31st March, 1971
Individuals	1,23,522	1,53,924
Hindu undivided family	15,113	19,303
Others . . . . .	..	28
	1,38,635	1,73,255

[Paragraph 69 (i & ii) of the Report of the Comptroller and Auditor General of India for the year 1970-71, Union Government (Civil) Revenue Receipts.]

2.3 According to Audit the total number of assessments completed during the years 1969-70 and 1970-71 was 1,69,572 and 1,99,226 respectively.

2.4. The Committee drew attention to the fact that against the budget estimate of Rs. 18.00 crores, the actual realisations during the year 1970-71 amounted to Rs. 15.31 crores i.e. the short fall from the budget estimates was 15 per cent. Asked about the reasons for the large variations, the Ministry stated: "The short-fall was essentially because of non-realisation of the anticipated Wealth-tax on agricultural lands as a result of stay of collection by the different High Courts and the doubtful position of law following the judgement of the Punjab and Haryana High Court delivered towards the end of September, 1970 declaring the levy of Wealth-tax on Agricultural assets *ultra-vires* the provisions of the Constitution of India. Earlier the period of filing the returns of wealth in the cases of persons owning agricultural lands or other assets relating thereto was extended upto 30th September, 1970. The increase in the number of gifts made by the assesseees during the year 1969-70 in the wake of the Land Ceiling Laws and the imposition of Wealth-tax on agricultural lands with effect from 1-4-1970 also adversely affected the collections of Wealth-tax."

2.5. In this connection, Audit have made the following comments: "Presumably the Ministry's point is that the B.E. was raised from Rs. 12 crores in 1969-70 to Rs. 18 crores in 1970-71, because of imposition of Wealth-tax on agricultural lands, but since gifts were made of agricultural land on account of land ceiling legislation the target could not be achieved.

If this is the correct position, the gift tax realisation on account of gifts would have gone up. It is, however, seen that in 1969-70 and 1970-71 against the B.E. of Rs. 1.50 crores the actual realisation was Rs. 2.02 and Rs. 2.45 crores respectively. As the rate of tax on gifts is higher and the basic exemption limit is much lower as compared to wealth-tax, the increase in gift tax should have been much more than the fall in the wealth-tax, anticipated to be collected from agricultural lands. The Ministry may kindly clarify this aspect."

2.6. During the year 1969-70, the total number of assesseees on record was 1,38,635 and the tax collected was Rs. 15.62 crores. During the year 1970-71, the total number of assesseees was 1,73,255 and the revenue collected was Rs. 15.31 crores. Though the number of assesseees had gone up for the year ending on 31-3-1971, the tax collected had suffered a reduction when compared with the position on 31-3-1970. Further during the year 1970-71, more assessments were completed when compared with the year 1969-70.

2.7. Referring to paragraph 2.7 of their 11th Report (1969-70) wherein the PAC had desired that a census of house properties be

carried out and to paragraph 1.18 of their 25th Report (1971-72), wherein they had reiterated the same, the Committee desired to know the progress made in this regard. The Finance Secretary, in reply, stated: "In 1971-72 nearly 4 lakhs premises were surveyed and in 1970-71 about 2,32,000 premises were surveyed. A special number of inspectors were put on this job and a total of nearly 39,000 new cases were discovered as a result of this in the two years 1970-71 and 1971-72."

2.8. The Committee referred to paragraph 1.23 of 25th Report (1971-72) wherein it was found that as a result of house properties 5477 cases had been detected. The Committee desired to know the number of new cases detected till the year 1971-72, as also its break up city-wise and charge-wise. The Ministry, in reply, have submitted the following information:—

(a) 10736 new cases have been detected during 1971-72.

(b) The break-up Commissioner charge-wise is as under.

City-wise information is not available.

Andhra Pradesh I	226
Do. II	144
Assam	294
Bihar	486
Orissa	58
Bombay City	2324
Poona	394
Delhi	2992
Jaipur	297
Gujarat I	181
Gujarat II	56
Do. III	34
Kerala	212
Madhya Pradesh	923
Madras	167
Mysore	94
Punjab	722
Lucknow	259
Kanpur	255
West Bengal	572
Vidharba and Marathwada	146
TOTAL :	10736

2.9. The Committee pointed out that the number of assesseees on 31-3-1970 was 1,38,635 and on 31-3-1971, 1,73,255 i.e. an increase of 34,620 assesseees. Asked how much of the increase could be attributed to external survey of the Department, the Ministry have stated:

“An addition of 9068 new cases out of increase of 34,620 assesseees can be attributed to external survey of the Department.”

2.10. In their 50th Report (Fifth Lok Sabha) the Committee had stressed the need to improve the Wealth-tax Administration. Although the number of assesseees had gone up from 1,38,635 in 1969-70 to 1,73,225 in 1970-71 and the number of completed assessments had increased from 1,69,572 to 1,99,226, the tax collections had suffered a reduction from Rs. 15.62 crores to Rs. 15.31 crores. Prima facie, this is a situation which needs to be explained. A detailed examination in other words is called for.

2.11. The Committee find that the Budget Estimate of Wealth-tax collection was raised from Rs. 12 crores in 1969-70 to Rs. 18 crores in 1970-71 because of imposition of wealth-tax on agricultural lands. The actual collections during 1970-71 were, however, Rs. 15.31 crores. The short-fall has been explained as partly due to increase in the number of gifts made by the assesseees during the year 1969-70 in the wake of the Land Ceiling laws. If this position is correct the gift tax realisation on account of gifts would have gone up. It is, however, seen that in 1969-70 and 1970-71 against the Budget Estimates of Rs. 1.50 crores the actual realisations of gift tax were Rs. 2.02 crores and Rs. 2.45 crores respectively. As the rate of tax on gifts is higher and the basic exemption limit is much lower as compared to wealth-tax, the increase in gift tax should have been much more than the fall in the wealth-tax anticipated to be collected from agricultural lands. The position should, therefore, be examined with a view to checking evasion of gift tax.

2.12. The Committee have been stressing the necessity to intensify the survey of house properties. They find that out of about Rs. 2.32 lakhs premises surveyed during 1970-71 and 1971-72, 39,000 new wealth-tax cases have been discovered. The survey in all the charges should be completed under a time-bound programme.

Wealth Tax

Audit Paragraph

2.13. During test-audit of assessments made under the Wealth-tax Act, 1957 short-levy of tax of Rs. 69.13 lakhs was noticed in 4734 cases. The upmber of cases in which over-assessment was noticed was 1706 and tax involved was Rs. 8.11 lakhs.

2.14. The under assessment of tax of Rs. 69.13 lakhs was due to mistakes categorised broadly under the following heads:—

	No. of Items (Rupees in lakhs)	Tax
(i) Avoidable mistakes involving considerable revenues	1442	11.03
(ii) Omission to levy or incorrect levy of additional wealth-tax	67	1.36
(iii) Incorrect exemptions and reliefs	692	5.04
(iv) Escapement of wealth from tax	921	5.65
(v) Incorrect valuation of property	511	6.26
(vi) Omission to levy or incorrect levy of penal interest/ penalty	761	33.34
(vii) Other lapses	340	6.35
TOTAL	4734	69.13

[Paragraph 69 (iii) of Report of the Comptroller & Auditor General of India for the year 1970-71, Union Government (Civil), Revenue Receipts.]

Gift Tax

Audit Paragraph

2.15. During test-audit of gift-tax assessments it was noticed that in 671 case there was short-levy of tax of Rs. 5.11 lakhs and in 287 cases there was over-charge of tax of Rs. 1.59 lakhs.

[Paragraph 77 (ii) of Report of the Comptroller & Auditor General of India for the year 1970-71, Union Government (Civil), Revenue Receipts.]

Estate duty

Audit Paragraph

2.16. In test-audit of estate duty assessments, it was noticed that in 855 cases there was short-levy of estate duty of Rs. 26.93 lakhs and in 193 cases there was over-charge of duty of Rs. 4.38 lakhs.

[Paragraph 80 (ii) of Report of the Comptroller & Auditor General of India for the year 1970-71, Union Government (Civil), Revenue Receipts.]

Wealth Tax

2.17. The Committee desired to know in how many cases the mistakes had been accepted, assessments rectified and additional demand raised. The Ministry have submitted the following note in this regard:

“Out of 4,734 cases of under-assessment and 1,706 cases of over-assessment, information has been received in respect of 2,535 and 971 cases respectively. Of these, the mistakes have been accepted in 1,838 cases of under-charge and 931 cases of over-charge. The information regarding rectification, additional demand, etc. is not readily available with the Ministry; bulk of the cases are small.”

2.18. The Ministry have further stated that the amount involved in the aforementioned cases, in which mistakes have been accepted is Rs. 12,66,034 under-charge and Rs. 5,02,125 over charge.

2.19. Asked whether there were any cases where rectification became time-barred, the Ministry have replied in the affirmative. The Committee desired to know the number of such cases and the amount involved therein. The Ministry, in a note, have stated:

“There are 7 such cases involving an under-charge of Rs. 3,629. Of these, rectification was barred in 5 cases (involving an amount of Rs. 3,374) even before the receipt of the audit objections.”

2.20. The Committee desired to know the number of mistakes pointed out in internal audit both under-assessment and over-assessment during the years 1970-71 and 1971-72, the number of cases outstanding on 31st March, 1972 without action and the amount involved in the outstanding objection. The Ministry have intimated that the information is not readily available with the Ministry and that bulk of the cases are small.

Gift Tax

2.21. The Committee enquired how many, out of the mistakes pointed out in Audit, had been accepted, rectified and pending for action on 1st September, 1972. The Ministry have furnished the following information in this regard:

(i) Out of 671 cases of under-charge of tax, the objection has been accepted in 369 cases. In 76 cases, objection has not been accepted by the Ministry. Information regarding the

rectification of the mistakes is not readily available with the Ministry, being with the field offices concerned.

- (ii) Out of 267 cases of over-charge, the objection has been accepted in 181 cases. In 8 cases, the objection has not been accepted by the Ministry. The Ministry do not have readily available information regarding rectification in this cases also.
- (iii) 34 cases of under-charge and 13 cases of over-charge are still pending for scrutiny by the Income-tax Department and report to the Ministry."

Estate duty

2.22. The Committee desired to know the number of cases where the mistakes were accepted and assessments rectified. In this connection, the Ministry have submitted the following:

"Out of 855 cases of under-assessment and 193 cases of over-assessment, information has been received in 804 and 134 cases respectively. Of these, the mistakes have been accepted in 707 cases of under-assessment and 131 cases of over-assessment. The information regarding rectification is not readily available with the Ministry; bulk of the cases are small."

2.23. The Committee enquired whether there were any cases where action for rectification became time-barred. The Ministry have stated that there are cases which became time-barred before the receipt of audit objection. Asked to indicate the number of such cases, along with the revenue involved, the Ministry have intimated that there are 2 such cases involving a revenue of Rs. 2,161.

2.24. The Committee desired to know the number of cases that were reviewed in internal audit during the years 1970-71 and 1971-72. They also desired to be furnished with the total number of mistakes detected by them, both under-assessment and over-assessment and pending without action on 31st March, 1972. In a note furnished to the Committee, the Ministry have stated as follows:

"The internal audit are not expected to audit the estate duty cases, as this is the responsibility of Deputy Controller of Estate Duty. However, the information is not readily available with the Ministry; bulk of the cases are small."

2.25. The test Audit of wealth-tax, gift-tax and Estate Duty assessments by Revenue Audit during the year 1970-71 revealed 4734, 671

and 855 cases of under-assessment involving Rs. 69.13 lakhs, Rs. 5.11 lakhs and Rs. 26.93 lakhs respectively. The cases of over-assessments noticed were 1706, 267 and 193 involving Rs. 8.11 lakhs, Rs. 1.59 lakhs and Rs. 4.38 lakhs respectively. The Committee regret that the Ministry are not in a position to give complete information regarding the action taken on all these cases. In this connection they would like to refer to para 2,327 of their 51st Report (Fifth Lok Sabha) on Income-tax. They desire that there should be a time-limit for taking corrective action on mistakes reported by Audit and a centralised periodical review in the case of other direct taxes also.

2.26. That there is no centralised control over the work of the Internal Audit of other direct tax assessments is evident from the fact that the Ministry are unable to intimate the number of mistakes pointed out by Internal Audit and the action taken by the Department. In paragraphs 2.27 to 2.29 of the 51st Report (Fifth Lok Sabha), the Committee had indicated how there could be a purposeful review of the work of Internal Audit of income-tax assessments and a better coordination between the Internal Audit and Revenue Audit to have maximum impact on the revenue collecting machinery. The Committee desire that action on these lines should be taken in regard to the Internal Audit of other direct taxes also. They hope that future Audit Reports would include a review of the working of Internal Audit as furnished by the Ministry.

2.27. The work of Internal Audit is not as though as it ought to be. This is partly so because of the manner in which the personnel for Internal Audit is recruited. The Internal Audit has an extremely important role to perform and it cannot be too strongly emphasised that it should be manned by competent persons with satisfactory career prospects. This is not the case today and the Committee would, therefore recommend that this suggestion be pursued in a comprehensive manner expeditiously.

Mistakes in calculation of tax

Audit Paragraph

2.28. In an assessment completed on 28th March, 1970 on net wealth of Rs. 59,32,572 tax was calculated by applying the rates prescribed for the assessment year 1968-69 instead of at the rates applicable for the assessment year 1969-70. This resulted in short-levy of tax of Rs. 24,668. Similar mistakes were noticed in five other cases resulting in undercharge of tax of Rs. 22,409. The Ministry have accepted the mistakes in all the six cases.

[Paragraph 70(a) of the Report of the Comptroller and Auditor General of India for the year 1970-71—Union Government (Civil). Revenue Receipts.]

2.29. The Committee were informed in a written note that the additional demand of tax had been recovered in all the cases. The Committee enquired how such mistakes occurred. The Finance Secretary stated: "We have been worrying ourselves as to how we can reduce these, eliminate these, delays and difficulties particularly in the matter of applying correct rate and making correct calculations because there are instances of two types and a quite ready answer is not available to us yet. Instructions are there. The responsibility is there on the Officers and yet they continue to make mistakes." The Chairman, Central Board of Direct Taxes also explained, "We view these mistakes quite seriously, but, we usually warn the Officer to be careful depending upon the total workload with him because usually the explanation is that it is due to rush of work."

2.30. The Committee pointed out that this excuse of being over-worked could be put forward by the ITOs for all the mistakes committed by them and enquired whether the workload on the ITOs could be so readjusted as to make it even and reasonable. The Chairman, Central Board of Direct Taxes, in reply, stated: "...we will be able to analyse their output.in the last 4 or 5 years, the Income Tax Officers' responsibilities have widened in a way because of the emphasis that we laid on searches. It so happens that a large number of Officers at a time are diverted to searches so that even though their workload has apparently gone down in terms of the quantity of assessments, the invisible consumption of time is never recorded." The witness continued: "We have appreciated these difficulties in the measurement of workload and recently we have established one organisation, management unit, which will look into the procedures, workload, management, requirements of personnel etc."

2.31. The Committee enquired whether an explanation was called for from the officers responsible for the mistakes committed in all these cases. The Ministry have submitted the following information:

"The explanations of the Wealth-tax Officers were not called for as the mistakes were attributable to the clerical staff. The Commissioners concerned were asked to call for the explanations of the members of clerical staff and take appropriate action thereon. Instructions have now been issued making the Wealth-tax Officers responsible for checking tax calculations in important cases.

2.32. The Committee desired to know the assessment by the Board of the factors that were responsible for the mistakes. In a note, the Ministry have replied. "The Board are of the view that with the

recent strengthening of the Internal Audit organisation and stricter supervisory control ordained (vide above-cited instruction) such mistakes will be reduced or detected promptly."

2.33. The Committee pointed out that the mistake appeared to be widespread and desired to know whether the Ministry ordered for a review of all assessments for the assessment from 1969-70, especially in the particular wards in which the mistakes arose. The Finance Secretary replied that a review of all cases in these years for which he was responsible was ordered. Asked about the outcome of the review, the Ministry have stated: "The reports received so far reveal that the omission was detected in 5 cases (involving a tax effect of Rs. 38,616) out of 262 cases reviewed for the purpose. The review is not yet complete. The final outcome of the review will be intimated to the Committee as soon as the information is available."

2.34. The Committee pointed out that in the case of income tax assessments there was a system of counter check of tax calculations by the supervisors and ITO himself. The Committee desired to know whether there was a similar system in other direct taxes also. The Finance Secretary, in reply, stated: "Apparently, they have recently issued instructions for a counter check on the calculation part also so that there is a second check. The Chairman is investigating whether our arithmetical calculations could be improved by having some calculators in the different offices so that mistakes commonly found of arithmetic which are fairly serious could be minimised. They are trying to experiment with a number of calculators, whether they would really serve the purpose."

2.35. The Committee were informed by Audit that the assessments in two cases were checked in internal audit but the arithmetical mistakes were not detected by them. Asked why these could not be detected, the Ministry furnished the following reply:

"In one case the mistake was detected by the Internal Audit Party whose note was received by the Wealth-tax Officer on 14th May, 1971 a fortnight before the receipt of Revenue Audit note. In the other case the mistake remained undetected through oversight for which the IAP official responsible has been asked to be more careful in future."

2.36. In connection with the security by internal audit, the Finance Secretary stated during evidence: "That has led us to a very serious internal examination on our part in regard to the quality of our internal audit. This kind of deficiency has been found in a large

number of cases pointed out elsewhere in the Auditor-General's Report and the internal audit did not go into many important points. They did not see whether the correct rate was being applied, to the correct year of assessment. We have a feeling that the quality of internal audit staff is not of the calibre that is needed for this complex work. We have to consider whether we should not change the whole organisation of our internal audit parties. That is a matter which is now engaging our attention, not only in terms of numbers but even in terms of their composition and their calibre. Internal audit parties do not seem to be adequately equipped, and they are not able to discharge the functions expected of them in a proper way." The Committee asked about the number of cases scrutinised by internal audit. The witness stated: "They are now expected to do immediate audit within one month of the completion of the assessment, of all company cases including super profits tax and surtax, other cases involving an assessed income of Rs. 1 lakh and above, cases relating to other direct taxes in which the tax payable is Rs. 20,000 and above—. But I am doubtful whether the present internal audit as organised will be really able to come up to expectations." The witness further stated: "In 1970-71, they checked 2,77,000 cases and in 1971-72, it was 3,36,000 cases." Asked to state the number of cases they were expected to check during these years as per existing instructions, the Ministry have furnished the following information:—

"There were no disposal quotas operative for IAPs during 1970-71. However, disposal quota of 500 cases per month per IAP was fixed in September, 1971. With this the disposals in 1971-72 registered improvement. From September, 1971 to March, 1972, on an average, 89 IAPs worked in all the charges. According to disposal quota fixed, they were expected to check 3.11 lakh assessments against which they checked 3.09 lakh assessments. The marginal shortfall of 0.6 per cent was due to the fact that the instructions fixing the disposal quota were issued on 9th September, 1971 and took some time in reaching the IAPs."

2.37. The Committee are constrained to note that in as many as six cases of assessments for the year 1968-70 the rates of tax applicable for the assessment year 1968-69 were wrongly applied resulting in short levy of wealth-tax of Rs. 47,077. Such mistakes in applying the rates are simply inexcusable. A review so far done has brought out other 5 cases involving a tax effect of Rs. 38,616. This shows that this type of mistake is fairly widespread. The Committee desire that the review should be completed expeditiously and recovery effected

besides taking appropriate disciplinary action against all officials concerned for the carelessness. The instructions issued recently making the wealth-tax officials responsible for checking tax calculations instead of by the clerical staff, if enforced rigorously will certainly ensure that such mistakes will not occur. The Committee trust that the enforcement will be strict.

Incorrect conversion of value of assets in foreign currency into Indian currency.

Audit Paragraph

2.38. Assets situated in foreign countries are to be valued in Indian currency at the rate of exchange prevailing on the valuation dates. Due to adoption of incorrect rate of exchange for converting the value of wealth, there was under-assessment of wealth of Rs. 21,34,961 with consequent short-levy of tax of Rs. 27,494. Brief particulars of the cases are given below:—

2.39. (a) For the assessment years 1967-68 and 1968-69 an assessee returned the value of foreign Government securities, balance in a bank and immovable property situated in a foreign country at Rs. 8,34,894 calculated according to the rates in force before the devaluation of Indian rupee in June, 1966. The valuation dates for the two years were 31st March, 1967 and 31st March, 1968 respectively. While completing the assessments in July, 1969 the Wealth-tax Officer adopted the value returned by the assessee instead of working out the value according to the post-devaluation rate of exchange. The mistake resulted in short-assessment of wealth of Rs. 7,72,888 for the two years. While accepting the under-valuation of government securities for the assessment year 1967-68 but not for the year 1968-69 the Ministry have intimated that the other mistakes are under verification.

2.40. (ii) For the assessment years 1967-68 to 1969-70 four assesseees returned the value of their share in foreign assets in the nature of immovable properties owned by a firm at Rs. 3,00,180 calculated at the rates of exchange prevailing prior to devaluation of Indian rupee in June, 1966. While completing the assessments for the three years 1967-68 to 1969-70, the Wealth-tax Officer adopted the value of foreign wealth at Rs. 3,00,180 as returned by the assesseees instead of taking the value at the post-devaluation rates in force on the relevant valuation dates. This resulted in total under-assessment of wealth of Rs. 4,61,886 with short-levy of tax of Rs. 7,326. The Ministry have accepted the mistake. Report regarding recovery is awaited.

2.41. (iii) In computing wealth of two assesseees for the assessment years 1967-68 to 1969-70, the value of assets located in Ceylon was not converted into Indian rupees at the rates of exchange prevailing on the valuation dates. This resulted in short-assessment of wealth of Rs. 9,00,187 involving short-levy of tax of Rs. 8,750. While accepting the mistake the Ministry have intimated that out of additional demand of Rs. 8,750 a sum of Rs. 2,660 has been recovered. Report regarding recovery of the balance of Rs. 6,090 is awaited.

[Paragraph 70 (b) (i), (ii) & (iii) of the Report of the Comptroller and Auditor General of India for the year 1970-71—Union Government (Civil) Revenue Receipts.]

2.42. The Committee enquired whether the assessments in all the cases have been rectified and the additional demand recovered. The Member, CBDT stated that the assessments had been rectified in all cases except in one case, in which re-assessments were pending. Asked about the present position of the pending case, the Ministry, in a note, have stated that the re-assessments have since been completed and a net additional demand of Rs. 4662 raised and recovered.

2.43. The Committee asked whether any specific instructions were issued to the assessing officers regarding the devaluation of rupee in June, 1966 and its impact on valuation of assets for purposes of levy of wealth-tax, gift tax and estate duty. The Finance Secretary replied that the instructions were not issued by the Board in 1966. The witness added: "The Board should have shown initiative in the matter." Asked when they were issued, the Ministry subsequently have stated that instructions have since been issued on 24th October, 1972. (Appendix I).

2.44 The Committee enquired whether, in view of this case, the Ministry were considering to make a survey of all cases of a similar nature assessed by the assessing officer. The Finance Secretary stated: "That has been ordered."

2.45. Referring to the seven cases reported in this paragraph, the Committee enquired whether the income tax assessments were re-examined to find out whether the income was returned in foreign currency or Indian currency; and in the former case, the Committee desired to know whether the conversion into Indian currency was correctly made and the income charged to tax. The Ministry, in a note, have stated: "In one case there was mistake in conversion for the purpose of income tax assessment also and this mistake has been rectified. In the remaining six cases the conversion was found to be correct."

2.46. The Committee pointed out that according to Audit, four assessments of two assessees were checked in internal audit but the omission was not detected by them. The Finance Secretary stated: "...We find this failure in so many paragraphs. It was most distressing for us to see the failure of internal audit. They seem to have gone just in a routine way; even arithmetically they seem to have made a mistake."

2.47. The Committee enquired whether the Ministry have prescribed checking whether income/value of assets returned in foreign currency is converted into Indian currency as one of the items of scrutiny by internal audit. The Chairman, Central Board of Direct Taxes replied: "I doubt very much because that point probably being not of that frequency might have been overlooked, I would admit." The Ministry, in a subsequent note, furnished to the Committee, stated that they have since asked the Director of Inspection (Income Tax and Audit) to prescribe this check.

2.48. For levy of wealth-tax, assets situated in foreign countries are to be valued in Indian currency at the rate of exchange prevailing on the valuation dates. The Committee are distressed to learn that the omission to adopt the correct rate of exchange due to devaluation of Indian currency in June, 1966 and the failure to convert the value of assets located in Ceylon into Indian rupees resulted in undercharge of net wealth of Rs. 21,34,961. The Board have ordered a review of all cases of wealth-tax assessees having foreign assets whose assessments have been completed for the years 1967-68 onwards with a view to examining if the value of the foreign assets was correctly adopted. The Committee would like to know the outcome of the review.

2.49. The Committee take a serious view of the failure of the Internal Audit in that the omission was not detected by them in 4 assessments of 2 assessees checked. It is distressing to note the failure of the Internal Audit in not detecting simple arithmetical errors in the tax calculations. The Committee deprecate the tendency to enlarge the scope of check in a piecemeal fashion. They desire that the position should be comprehensively examined and detailed checks laid down so that wherever there is a failure of check a plea may not be taken by the Internal Audit that a particular item has not been specifically included in the items to be checked by them.

*Other mistakes***Audit Paragraph**

2.50. In the case of an assessee, the additional wealth-tax chargeable on immovable property situated in an urban area was included in the net wealth of the assessee and the additional wealth-tax leviable was arrived at Rs. 24,368 in the assessment for the assessment years 1965-66 to 1970-71 completed in December, 1970. The additional tax was however not included in the demand notice issued to the assessee. This resulted in short-realisation of revenue by Rs. 24,368. The Ministry have accepted the omission. Report regarding recovery is awaited.

[Paragraph 70(c) (i) of Report of the Comptroller and Auditor General of India for the year 1970-71—Union Government (Civil), Revenue Receipts.]

2.51. The Committee enquired whether the additional demand of Rs. 24,368 had been recovered. The Ministry have replied that the amount has not yet been recovered and that necessary measures are being processed. Asked whether the circumstances in which the demand was omitted to be included in the demand notices issued to the assesseees for six assessment years, were looked into the Ministry have stated:

“The W.T.O. had mentioned levy of additional wealth-tax but the clerical staff overlooked to include it in tax calculations and consequent demand notices; they have been warned.”

2.52. The Committee were informed that on the income-tax side, instructions existed for the counter-check of tax calculations by the Head Clerk/Supervisor and by the I.T.O. himself. Asked whether there were any such arrangements in regard to check of tax calculations in respect of Wealth-tax, Gift-tax and Estate Duty assessments, the Ministry have stated that the question of issue of instructions for checking of tax calculations of Other Direct Taxes by the officers concerned is under consideration.

2.53. Although in this case the assessing officer correctly calculated the additional wealth-tax payable by the assessee on immovable property situated in an urban area, the additional tax was not included in the demand notice issued owing to a clerical error which resulted in short-recovery of tax to the extent of Rs. 24,368. While the Committee await a report regarding recovery of the amount, they

would like to refer to para 2.19 of their 50th Report (Fifth Lok Sabha) wherein the need for counter-check of assessments before they are finalised and demand notices issued, was stressed. The Committee desire that necessary instructions for the counter-check of tax calculations in respect of wealth-tax, gift-tax and estate duty assessments as in the case of income-tax be issued without delay and the Committee informed of action taken.

Omission to levy, or incorrect levy of, additional wealth-tax on immovable urban properties.

Audit Paragraph

2.54. In paragraphs 71 (iv) and 62(iii) (b) of Audit Reports on Revenue Receipts 1970 and 1969-70 respectively several cases where the additional wealth-tax on immovable urban properties was not levied or incorrectly levied were reported. During the period under review such mistakes were noticed in 67 cases accounting for short-levy of additional wealth-tax of Rs. 1.36 lakhs.

[Paragraph 71 of the Report of the Comptroller and Auditor General of India for the year 1970-71 Union Government (Civil)—Revenue Receipts.]

2.55. The Committee desired to know the revenue realised through the additional wealth-tax for the year 1968-69 to 1970-71 year-wise and also the number of cases involved therein. The Ministry have stated. "The requisite information is not available with the Ministry. The details have been called for from the Commissioners and are expected shortly. As soon as the information is available, it will be furnished to the Committee."

2.56. The Committee pointed out that this fiscal enactment was intended to curb excessive investment in urban property, as without such a curb, investment in more productive directions could not be encouraged. Asked whether a review had been conducted to find out as to how far the said objectives were achieved, the Finance Secretary replied: "No, Sir. A review has not been made." He further stated: "I have to think of the manner in which it should be done. I will have a discussion with the Chief Economic Adviser as to how he could devise a proper method for doing this."

2.57. Referring to the fact that Revenue Audit was pointing out every year a number of cases wherein the additional wealth-tax was not levied|incorrectly levied, the Committee desired to know the steps taken to avoid such mistakes. In its reply, the Ministry have stated: "The Board have already brought to the notice of the Commissioners the instances of non-levy of additional wealth-tax on immovable properties. A review was also ordered.

2.58. The Committee wished to know the extent and scope of scrutiny prescribed for internal audit in regard to the levy of additional wealth-tax. The Ministry have stated: "The priorities followed by Internal Audit of late have been to audit cases involving large amounts or otherwise important. The definition of 'priority cases' for Internal Audit has been changing from time to time. From November, 1969 onwards priority cases included all assessments under the other Direct Tax Acts (including Wealth-tax) where the tax levied exceeds Rs. 10,000/-. Normally, cases which involve additional wealth-tax would be covered under this definition and thus require checking on priority basis. More recently in June, 1972, 'Immediate Audit' scheme was introduced. The cases coming up for 'Immediate Audit' include all cases relating to other Direct Taxes including Wealth-tax where the tax payable is Rs. 20,000/-and above. These cases would normally include many of the Wealth-tax assessments where additional Wealth-tax may be involved. Immediate audit cases are to be audited within one month of the assessment. Next to 'Immediate Audit', the Internal Audit would be checking priority cases as mentioned above which would cover a wide range of such cases. Recently the Commissioners have been asked to issue specific instructions to the Internal Audit Parties about the need to check whether additional Wealth-tax on urban properties had been correctly levied; this has been achieved by adding an item to the Check Sheets of the Internal Audit for Wealth-tax cases.

2.59. At the instance of the Committee, the Board issued instructions in September, 1971 for a review of completed assessments to correct, omissions, if any or mistakes, if any, in the levy of additional wealth-tax. The Committee desired to know the number of cases in which rectifications were made and also the additional demand raised. The following information has been submitted by the Ministry in this regard:

"The results of review are indicated below:—

(a) Number of cases surveyed	11,429
(b) Number of cases out of (a) above where omission to levy additional wealth-tax was detected	105
(c) The amount of additional wealth -tax involved in cases at (b) above	3,25,286
(d) Number of cases in which rectification has since been effected under section 35; and	68
(e) Number of cases where rectification is still pending (being expedited)	37

2.60. Levy of additional wealth-tax on the urban lands and buildings owned by individuals and Hindu Undivided Families under the Finance Act, 1965 was intended to curb excessive investment in urban property as without such a curb investment in more productive directions could not be encouraged. The Committee find that no review has been conducted to find out how far this objective has been achieved. As eight years have elapsed they desire that such a review should be conducted now after ascertaining the revenue realised through the additional wealth-tax and the number of cases involved from year to year. The findings and further measures proposed to be taken to achieve the objective may be reported to the Committee.

2.61. The Committee suggest that a review of the realisation of the socio-economic objectives underlying the various fiscal enactments made from time to time should be undertaken periodically so that necessary timely correctives may be applied.

Incorrect exemptions and reliefs

Audit Paragraph

2.62. Wealth-tax is not payable by an assessee in respect of one house or part of a house belonging to the assessee exclusively used by him for residential purposes, provided that where the value of such house or part thereof situated in a place with a population exceeding ten thousand exceeds Rs. 1 lakh, the amount that is not included in the net wealth of the assessee is Rs. 1 lakh. In three cases it was noticed that the exemption was not allowed correctly leading to under-assessment of tax of Rs. 10,548. Brief particulars of the cases are given below:—

2.63. (a) In the wealth-tax returns filed by an executor of an estate of a deceased assessee for the assessment years 1965-66 to 1969-70 (completed in February, 1970) exemption of Rs. 1 lakh in respect of a residential house claimed from net wealth was allowed by the department though the house in respect of which exemption was claimed did not belong to the executor of the estate. The incorrect allowance of exemption for the five years resulted in under-assessment of wealth of Rs. 5 lakhs. The Ministry have accepted the mistake.

2.64 (b) The exemption was incorrectly allowed in the assessments of two partners of a firm for the assessment years 1967-68 to 1969-70 though the property belonged to the firm and not to the partners. The incorrect grants of exemption resulted in under-assessment of wealth of Rs. 2,01,778. The Ministry have accepted

the mistake and stated that additional demand of Rs. 1,002 had been raised. Report regarding recovery is awaited.

[Paragraph 72(a)&(b) of Report of the Comptroller and Auditor General of India for the year 1970-71—Union Government (Civil)—Revenue Receipts.]

2.65 Asked whether the assessments in the cases referred to, had been rectified and the additional demand recovered, the Ministry have stated that the assessments have been re-opened and are pending completion.

2.66. Mistakes in the grant of exemption under the Wealth-tax Act in respect of residential property were brought to the notice of the Committee in Audit Reports 1970 and 1969-70. The Committee enquired whether the Ministry had issued any instructions pointing out the mistakes that were generally committed by the Wealth-tax officer in allowing this exemption. The Ministry have stated that no general instructions have been issued by the Ministry in the matter.

2.67. The Committee enquired whether the assessments in the three cases were checked in the Internal Audit and if so, how the mistakes escaped their attention. The following information has been received from the Ministry in this regard;

"The assessments were checked by the I.A.P. The Supervisor who failed to detect the mistake has explained that as the case involved a legal point, he was not able to detect the same. He has been cautioned."

2.68. Referring to the case in sub-para (a), which dealt with incorrect deduction allowed in the assessments in the case of executors under Section 19A of Wealth Tax Act, the Committee enquired whether the Ministry had elucidated the legal position for the guidance of the assessing officers. The Ministry in a note, stated as follows:

"In view of the amendment brought forth by the Finance (No. 2) Act, 1971, the provisions of Section 5 (i) (iv) of the Wealth Tax Act, 1957 on account of which the executor would be able to get the exemption, it is not considered necessary to issue any separate instructions in the matter. However, it may be stated that this has effect only from 1-4-1972."

The amendments to Section 5(1) (iv) of the Wealth Tax Act 1957 under Finance Act 1970 and Finance (No. 2) Act 1971 are as follows:—

For clause (iv), the following clause shall be substituted with effect from 1st day of April, 1971, namely:—

“(iv) one house or part of a house belonging to the assessee and exclusively used by him for residential purposes: Provided that, where the value of such house or part exceeds one hundred thousand rupees, the amount that shall not be included in the net wealth of the assessee under this clause shall be one hundred thousand rupees;”;

(Finance Act, 1970).

In clause (iv), the words “and exclusively used by him for residential purposes” shall be omitted with effect from the 1st day of April, 1972.

(Finance (No. 2) Act, 1971)

2.69. The Audit para deals with exemptions in respect of house properties incorrectly allowed in three cases. In one case the exemption was allowed to the executor of an estate although the property did not belong to him. In other two cases though the house property belonged to a firm in which the two assesseees were partners, exemption was allowed in the hands of the partners. The Internal Audit Party is stated to have failed to detect the mistake in all these cases in view of a legal point involved. In view of this the Committee are unable to appreciate that no general instructions have been issued by the Ministry especially when several mistakes in the grant of exemption under the Wealth-tax Act in respect of residential property have been brought to their notice through successive Audit Reports. The Committee stress that the Ministry ought to clarify the relevant portions of the Act for the guidance of the assessing officers and the Internal Audit.

2.70. As regards the exemption in respect of the house property not belonging to the executor, the Committee have been informed that in view of the amendment to Section 5 (1) (iv) of the Wealth-tax Act, the executor would be able to get exemption w.e.f. 1-4-1972. As the house should still belong to the assessee, the Committee would suggest that Government should examine whether the executor would be able to get exemption under the amended provision of the Act.

III GIFT-TAX

Overcharge of tax due to mistake in calculation.

Audit Paragraph

3.1. On a gift of Rs. 1,76,937 made in October, 1965 gift tax of Rs. 42,925 was levied in the assessment completed in September, 1969. At the rates applicable to the assessment year 1966-67, the gift-tax leviable amounted to Rs. 21,714. The incorrect levy of tax at the rates prevalent prior to 1966-67 resulted in over-charge of tax of Rs. 21,211. While accepting the mistake, the Ministry have stated that the assessment has been rectified and the original demand has been reduced by Rs. 21,211.

[Paragraph 79 of the Report of the Comptroller and Auditor General of India for the year 1970-71 Union Government (Civil), Revenue Receipts.]

3.2. The Committee desired to know about the quantum of audit prescribed for internal audit in regard to gift tax assessments. In the following note, the Ministry have replied:

"No quantum of audit was prescribed for the internal audit of gift-tax assessments. However, *vide* para 4 of Circular No. 19—D(LXXIX—1) |63 dated 1-8-1963 the *erst while* Central Board of Revenue had directed that while checking the Income-tax assessments, the IAPs will also check the arithmetical accuracy of the calculations made in gift-tax assessments in the same case. However, the Board have recently prescribed 'immediate audit' within one month from the date of completion of assessment in cases in which the gift-tax demand exceeds Rs. 10,000|-'

3.3. The Committee were informed that the assessment was completed in September 1969 and revenue audit was conducted in October 1970. The Committee enquired why the assessment involving a gift of Rs. 1,76,937 was not subjected to scrutiny by internal audit. To this the Ministry have stated that during the period of audit by the Internal Audit Party, this case was not available.

3.4. The Committee are concerned to find that there is no effective Internal Audit check of Gift-tax assessments. In paragraph 2.28 of the 50th Report (Fifth Lok Sabha) the Committee had taken note of the enlargement of the scope of Internal Audit check of Wealth-tax assessments since June, 1969. Similar action is called for in respect of Estate Duty and Gift-tax also. Further, the Committee desire that the quantum of check of various categories of assessments should also be laid down specifically in consultation with the Statutory Audit.

IV

ESTATE DUTY

Avoidable mistakes involving considerable revenues

Audit Paragraph.

4.1. The net principal value of the estate of a person who died in July 1955, was determined as Rs. 9,43,348 in November, 1962. With a view to assess escaped estate of the value of Rs. 5,00,000 from duty, the assessment was revised in November, 1969 and the total value of the estate charged to duty amounted to Rs. 14,43,348. Though in the original assessment made in November, 1962, there were several accountable parties and only one of these parties estate duty was correctly calculated treating the assessee as a holder of an impartible estate, in the re-assessment made in November, 1969, duty was levied at the rates applicable to property which consisted of an interest in the joint family property of a Hindu undivided family. This accounted for short-levy of duty of Rs. 15,000. While accepting the mistake the Ministry have intimated that additional demand of Rs. 15,000 has been raised.

[Paragraph 81 of the Report of the Comptroller and Auditor General of India for the year 1970-71, Union Government (Civil), Revenue Receipts.]

4.2. The Committee enquired how the Ministry came to know that there was an escaped estate of the value of Rs. 5 lakhs with the assessee. The Finance Secretary replied that this fact was disclosed by the statement of Counsel. The Member, CBDT further stated that the discovery regarding this was made on 11-6-1964. The Committee pointed out that the revised assessment was done only in November, 1969 and desired to know the reason for the delay. The Member, CBDT stated: "The delay took place because there were several accountable parties and only one of these parties had filed the return. Now the Estate Duty Officer has to serve notice on all the other parties and there was delay on the part of those parties. Another feature that arose after the assessment was made was that they went on a writ to the High Court and also filed a petition before the Board before which it was pending. They did not accept the notice; they did not file any return; they did not respond to the notice at all."

4.3. Asked whether the additional demand had been realised, the Ministry have intimated: "Not yet; the Accountable persons have filed a writ petition before High Court."

4.4. To a question, the Ministry intimated that the accountable persons were in arrears in respect of the estate duty and that the total amount outstanding without recovery on 31-3-1972 was Rs. 2,77,087|-.

4.5. Asked whether the assessment was subjected to scrutiny by the internal audit, the Ministry, in a note, replied in the negative. When the Committee desired to know the reasons for the omission of the Internal audit to examine the file, the Ministry have replied that the Internal Audit Party could not check this case due to heavy pressure of work.

4.6. **The failure of the Estate Duty Officer to apply the rate of taxation correctly at the time of reassessment bringing the escaped estate of Rs. 5 lakhs to duty in this case accounted for short levy of estate duty of Rs. 15,000. The additional demand has not yet been realised as the accountable persons have filed a writ petition. The outcome may be reported to the Committee. The Committee would also like to know the action taken in respect of the concealment.**

4.7. The Committee also understand that the accountable persons were in arrears in respect of estate duty to the extent of Rs. 2,77,087 as on 31st March, 1972. The arrears should be recovered early under intimation to the Committee. . .

4.8. The plea that the Internal Audit could not scrutinise the assessment in this case due to heavy pressure of work cannot be accepted. Measures should be taken to see that the Internal Audit covers in time all the big cases.

Incorrect exemptions and reliefs

Audit Paragraph

4.9. In determining the value of estate for purposes of levy of estate duty, debts are deductible. Income-tax assessed on the deceased and remaining unpaid on the date of death is a debt and the amount thereof is to be deducted from the total value of the estate.

4.10. In the estate duty assessment of a person (who died on 8th January, 1969), completed in July, 1969, the income-tax liability for the assessment years 1968-69 and 1969-70 was allowed as a deduction to the extent of Rs. 78,313 though the actual liability amounted to Rs. 30,483 only, thus leading to excess deduction of Rs. 47,830.

4.11. Further income-tax liability of Rs. 30,700 for the assessment year 1970-71, was also deducted although no such liability existed for the assessment year 1970-71, the deceased having died in the previous year relevant to the assessment year 1969-70 itself.

4.12. The total excess deduction of Rs. 78,530 on account of tax liability resulted in under-charge of estate duty of Rs. 30,453. The paragraph was forwarded to the Ministry in August, 1971 and their reply is awaited (February, 1972).

[Paragraph 82 (i) of the Report of the Comptroller and Auditor General of India for the year 1970-71 Union Government (Civil), Revenue Receipts.]

4.13. The Committee enquired whether the assessments had been revised and if so, desired to know the additional demand raised and recovered. In reply, the Ministry have furnished the following note:

The assessment was revised in July, 1972 raising an additional demand of Rs. 13,583/- but it has not yet been collected. The Accountable Person has, however, surrendered Annuity Deposit Certificates of the value equal to the additional demand and these have been sent to the Reserve Bank of India for encashment."

4.14. The Committee desired to know the claim put forward by the accountable person as debt in respect of outstanding income tax liabilities. The Member, CBDT, replied: "We shall have to see from the original files." The Committee pointed out that this year unlike the previous years (when all the Audit paragraph were examined during evidence) the Ministry were intimated that only a limited number of paragraphs would be examined and even for these, the replies were not forthcoming from the representatives of the Ministry. The Secretary, Ministry of Finance replied: "I have noted your observations and I shall see what we can do to remedy the situation. It calls for a measure of reorganisation as far as I feel, because we are not able to handle adequately the objections in the Committee as far as this Board is concerned, in the other Board it was somewhat different and we were able to answer your points". The Committee desired that the witnesses should get together and see that the readiness for answering questions at least is ensured, apart from the follow up and other things.

4.15. Subsequently the Ministry furnished the following written information in this regard:

"In the estate duty account (Return) in schedule No. I (1st Part) the Accountable person claimed the following tax liabilities:—

Tax	Assessment Year	Amount Rs.	Total Rs.
Income-tax	1968-69	47,833	
Do.	1969-70	30,480	
Do.	1970-71	30,700	1,09,013
Wealth tax	1968-69	825	825
TOTAL			1,09,838

The above claim was allowed as made. Perhaps the intention was to make the necessary rectification after the taxes were determined. This fact, was, however, not specifically noted in the assessment order".

4.16. The Committee enquired whether income tax assessments for the years 1968-69 and 1969-70 were completed and if so, desired to know the actual amount payable by the deceased. In a note, the Ministry submitted the following note:

"The details of the completion of the income-tax assessments for assessment years, 1968-69 and 1969-70 are as under:

Assessment Year	Date of completion of assessment	Income Rs.	Amount Gross Rs.	Payable Net Rs.
1967-68	25-6-68	71,480	32,626	(—) 16,666*
1968-69	19-1-72	104,100	60,770	(+) 19,470
1969-70	19-1-72	79,750	35,870	(+) 5,390

4.17. The Committee desired to know the procedure laid down for watching the rectification adopting final figures, when debts are allowed as a deduction on a provisional basis. The Member, CBDT stated: "When estate duty return is filed provisional assessment is normally made on the basis of which they go and get their probate and subsequently a regular assessment is made and at that stage adjustments take place. In this particular case, I do not know how the estate duty officer could have possibly said that there was liability". Asked whether such a procedure was followed in the case under consideration, the Ministry, in a note, have stated: "The return was filed on 25-6-69, provisional assessment was made on 28-6-69 and regular assessment was made on 3-7-1969".

*Excess of advance tax.

4.18. The Ministry have further informed that the accountable person claimed the outstanding liability for the assessment year 1970-71 as a debt.

4.19. The Committee pointed out that there had been inordinate and unusual delay on the part of the Ministry in replying to the Audit paragraphs. As regards this case, the Committee were informed that the audit objection was raised in January, 1971 and the find letter from the AG to the Asstt. Controller, Estate Duty had gone on 19-3-1971. Further, the draft para from Audit to the Ministry was sent on 7-8-1971 but no reply was received by Audit till the presentation of the Audit Report. Normally, the reply should have been sent to Audit within six weeks of the receipt of the draft para and in this case, the reply was sent as late as 27-5-1972. In their reply the CBDT intimated Audit that the actual excess deduction was only Rs. 32,853 as against Rs. 78,530 estimated by Audit. The Committee desired to know whether there was any proper procedure in the Ministry, for dealing with the draft audit paragraphs. The Finance Secretary stated: "In this case, it is said that there was delay on the part of the Assistant Controller". The Committee pointed out that the Asst. Controller of Estate Duty received the Audit objection in February, 1971 so that by the time the reference was made from here, he should have reported to the Ministry even earlier and furnished the correct figure. The Member, CBDT stated: "In this case, even in July when the report was received from the Commissioner, we found that that report was also wrong—the Commissioner's report." The Committee drew attention to the fact that from the way the Audit Paragraphs were handled, it seemed that there was no basic examination of these paragraphs on the facts on the files in the CBDT and that the CBDT was depending merely upon the report of the Commissioner. The Committee pointed out that all the papers sent by the Commissioner should also be gone through by the witnesses so as to satisfy themselves that the report of the Commissioner was correct.

In the case under reference, the Finance Secretary further stated: "He (the Asstt. Controller) must have known it at the first stage of the objection. So the material was available with him and there was no reason on his part to delay it. I would particularly request the Chairman of the Board to see that they should not merely be satisfied with delayed replies, but they must take these officers to task." The witness continued; "Unless some action is taken in a few cases, it may not be possible to improve the position". The Committee also referred to a case dealt with in the 50th Report of PAC (1972-73); wherein a similar delay by the Ministry of more than a year in reply-

ing to Audit was observed. The Secretary, Ministry of Finance replied: "Your observations are quite correct and it is a matter of very serious concern to the Board, that there should have been so much delay. I think the Board must also examine internally whether their organisation is satisfactory enough to meet the requirements". Asked who, in the Board, was responsible for dealing with audit paragraphs, the witness replied, "one Member had been made in charge of this".

To a question regarding the delay by the Ministry in sending replies to the C. & A.G., the following information has been furnished:

"The report from the field office (Controller of Estate Duty) was not received in time even though the Board has asked for the details as early as on 20th August, 1971. In fact, the Controller sent his report for the first time only on 18th March, 1972, i.e. about 7 months after he was asked for it. The delay is apparently inexplicable. The issue of fixing the responsibility is being examined by the Board".

4.20. The Committee regret to note the carelessness in completing the estate duty assessment in this case. Outstanding income-tax liabilities payable by the deceased for the assessment years 1968-69 and 1969-70 were not ascertained by the estate duty officer and the liabilities were allowed as claimed by the accountable persons. Further the fact that tax liability for the assessment year 1970-71 was also allowed, though the assessee died on 8th January, 1969 shows that the officer had not checked the accuracy of the claims. The Committee desire that suitable action should be taken for this lapse.

4.21. The assessment in this case was made provisionally on 26th June, 1969 and regular assessment was made on 3rd July, 1969. However, the Committee learn that the income-tax assessments of the assessee for the years 1968-69 and 1969-70 were completed only on 19th January, 1972. It is therefore, not clear how the regular estate duty assessment taking into account the income-tax liabilities was made earlier. Further the Committee would like to know whether the estate duty assessment was further revised on knowing the final income-tax liabilities.

Audit Paragraph

4.22. A house or part thereof exclusively used by the deceased for his residence to the extent the principal value thereof does not exceed Rs. 1 lakh if such house is situated in a place with a population exceeding ten thousand and the full principal value thereof in any other case, is exempt from estate duty. The exemption is admissible only in respect of properties belonging to the deceased and passing on his death.

4.23. (a) In two cases, the exemption of Rs. 1 lakh was allowed even though the house property belonged to Trusts and not to the deceased and the deceased had only life interest therein. The incorrect exemption resulted in under-assessment of estate of Rs. 1 lakh in each case involving aggregate short-levy of duty of Rs. 80,000. The paragraph was forwarded to the Ministry in August, 1971 and their reply is awaited (February, 1972).

[Paragraph 82 (iii) (a) of the Report of the Comptroller and Auditor General of India for the year 1970-71, Union Government (Civil), Revenue Receipts.]

4.24. The Committee desired to know the provisions of the law in regard to exemption of house properties from levy of estate duty. In a note furnished below, the Ministry have stated:

“Under the provisions of section 33(1)(n) of Estate Duty Act no estate duty is payable in respect of one house or part thereof exclusively used by the deceased for his residence to the extent the principal value thereof does not exceed Rs. 1 lakh if such a house is situated in a place with a population exceeding 10,000 and the full principal value thereof in any other case.”

4.25. Asked what the intention of Government was in providing for the relief, the following information has been submitted by the Ministry:

“This exemption was provided keeping in view that it would be equitable and in accordance with the prevailing sentiments associated with the ancestral or family residences used by the deceased persons.”

4.26. The Committee enquired about the opinion of the Ministry of Law in the case under examination. The Ministry have replied:

“The Ministry of Law had advised that the provisions of section 33(1)(n) did not speak of ‘interest in property’ but ‘property itself such as money, house etc.’”

4.27. Under the Estate Duty Act exemption from duty for the self occupied house is admissible only in respect of properties belonging to the deceased and passing on his death. Although the properties did not belong to the deceased who had only life interest therein, exemption was irregularly given in two cases leading to the short-levy of tax of Rs. 80,000 as mentioned in the Audit paragraph. The Com-

mittee have been given to understand that the Law Ministry also have opined that the provision of Section 33(1)(n) does not speak of "interest in property" but property itself. Hence the inclusion of life interest for exemption under this Section does not appear to be legally valid. The Committee presume that the assessments have since been revised and additional demand recovered.

4.28. The Central Board of Direct Taxes will do well to conduct a test check in other charges to see whether similar mistakes have been committed. The position in law should also be clarified for the guidance of the Estate Duty Officers.

Incorrect levy/non-levy of interest

Audit Paragraph

4.29. The estate duty officers may allow payment of duty to be postponed on payment of such interest not exceeding four per cent or any higher interest yielded by the property.

4.30. In the case of a person who died in May, 1964, the estate duty payable was determined as Rs. 3,14,694 in August, 1966. The estate duty officer allowed the accountable person to pay the duty in three instalments with interest of Rs. 6,294 thereon. In December, 1966 on an application received from the accountable person the estate duty officer ordered that the duty might be paid in monthly instalments of Rs. 15,000 each subject to payment of interest at six per cent per annum. The accountable person however, again represented that the instalments might be reduced to Rs. 7,500 per month. From July, 1968, the accountable person was permitted by the estate duty officer to pay off the balance demand in monthly instalments of Rs. 10,000 each. The accountable person paid Rs. 2,58,873 towards the demand due and Rs. 3,567 towards the interest upto June, 1969 when the Appellate Tribunal reduced the value of the principal estate and the duty payable thereon was determined as Rs. 2,06,396. The Appellate Tribunal's orders were given effect to in September, 1969 and duty of Rs. 52,477 excess paid was refunded to the accountable person in September, 1969. The actual amount of interest payable by the accountable person in respect of the instalments on the demands sustained by the Appellate Tribunal amounted Rs. 13,651. As the accountable person paid only Rs. 3,567 towards interest, there was short-levy of interest of Rs. 10,084. While accepting the mistake the Ministry stated that interest of Rs. 10,084 has since been charged.

[Paragraph 83(a) of the Report of the Comptroller and Auditor General of India for the year 1970-71, Union Government (Civil), Revenue Receipts.]

4.31. The Committee were informed by the Ministry in a written note that the provisions in the Estate Duty Act relating to levy of interest on delayed payment of Government dues were:

“Under Section 79(1) of the Estate Duty Act where the Controller is satisfied that the estate duty leviable in respect of any property, cannot, without excessive sacrifice, be raised at once, he may allow payment to be postponed for such period, to such extent, and on payment of such interest not exceeding 4% or any higher interest yielded by the property, and on such other terms as he may think fit.”

4.32. The Committee asked whether the rate of levy of interest as 4 per cent or any higher interest yielded by the property was not too low. The Committee also drew attention to the provisions in the Income Tax Act where interest was leviable at 12 per cent per annum on the outstanding dues, and enquired why the Estate Duty Act also should not be amended revising the levy at 12 per cent. The Ministry in the following note, have stated:

“The Ministry agree that the rate of interest is too low and are already considering this for bringing-forth suitable amendment when the changes in the Estate Duty Law are taken up with the concurrence of the States.”

4.33. The Committee understood that under the law, interest became leviable when extension of time was applied for and granted. If extension of time was not applied for, the accountable person did not become liable for interest. The Committee asked whether the provisions of the law were not more favourable to defaulters. To this, the Ministry have replied:

“The Ministry agree that the provisions of law as existing at present are anomalous and more favourable to defaulters; amendment is contemplated as mentioned above.”

4.34. The Committee were informed that the anomalous position regarding levy of interest under the Estate Duty Act was brought to the notice of the Ministry by Audit on 28th November, 1970. The Committee desired to know the action taken on this reference from Audit:

“The Board issued instruction vide No. 385 dated 23rd February, 1972 that the Assistant Controllers of Estate Duty should be vigilant and press for the unpaid demand immediately after

the due date so that the accountable persons either pay the outstanding demands or seek extension of time allowable on the condition *inter alia*, of payment of interest.

4.35. The Committee were informed that in a particular case decided by Calcutta High Court, the levy of interest of its 10,457/- for non-payment of dues was held to be invalid as no extension of time was applied for and granted by the assessing officer. The Committee enquired whether this case was reviewed by Government with a view to plug the loophole in the law. The Ministry, in a note, have stated:

“The case was reviewed by the Ministry and it was as a result of this decision of the Calcutta High Court that Instruction No. 385 was issued by the Board.”

4.36. Pointing out that the mistake in this case arose while giving effect to appellate orders, the committee enquired whether any arrangements existed for counter check of assessment orders, revised to give effect to appellate decisions. The Ministry have, in this connection, submitted the following information:—

“When an assessment is revised to give effect to appellate order, the calculation made by the clerk are checked by a supervisory official and before finalisation the I.T.O. satisfies himself about the accuracy.”

4.37. The Committee would like to deal with the following general questions arising out of this Audit paragraph.

4.38. The Committee are of the view that the rate of interest of 4 percent or any higher rate yielded by the property recovered for the postponement of payment of estate duty allowed, is low. The Ministry are also in agreement with this view. Under the Income-tax Act interest is leviable at 12 per cent per annum on the outstanding dues. The Estate Duty Act requires amendment to raise the rate of interest.

4.39. Further, the Committee find that under the Estate Duty Act interest becomes leviable only when extension of time for the payment of duty is granted. If the extension is not obtained the accountable person does not become liable for interest. Thus the provisions of law are more favourable to defaulters who do not seek extension of time. The Committee, therefore, desire that the necessary amendment should be effected to remove this anomaly.

4.40. The two amendments suggested above by the Committee should be brought about without delay.

Audit Paragraph

4.41. Under the provisions of the Estate Duty Act every person accountable for estate duty is required to submit the return for estate duty within six months from the date of death of the deceased. The Controller of estate duty may extend the time limit on payment of interest at the prescribed rate.

4.42. In two cases though extension of time for submission of returns was granted to the accountable persons, no interest was actually levied. The non-levy of interest involved in the two cases was Rs. 9,436. In reply the Ministry have stated that in one case as the Controller did not pass any order extending the time limit, the accountable persons cannot be made liable for levy of interest. The Ministry's reply to the other case is awaited (February, 1972).

[Paragraph 83(b) of the Report of the Comptroller and Auditor General of India for the year 1970-71 Union Government (Civil), Revenue Receipts].

4.43. The Committee desired to know the provisions of the law regarding levy of interest for belated submission of returns of estate duty. The Ministry have stated:

Under Section 53(3) of the Estate Duty Act, every person accountable for estate duty shall, within six months of the death of the deceased, deliver to the Controller an account in the prescribed form and verified in the prescribed manner of all the properties in respect of which estate duty is payable, provided that the Controller may extend the period of six months aforesaid on such terms which may include payment of interest as may be prescribed.

In terms of Rule 42 of the Estate Duty Rules, 1963, the Controller may, if he considers that there are reasonable grounds for doing so, extend the period of six months referred to in sub-section (3) of section 53 on the following terms, namely:—

- (a) the person accountable shall furnish to the Controller information as to the principal value of all the property passing on the death of the deceased, to the extent it is within his knowledge.
- (b) the person accountable shall pay the amount, or furnish security to the satisfaction of the Controller for the payment of the amount, which the Controller may, on the

basis of the information furnished by the accountable person and all other information available to him, estimate to be the amount of Estate Duty payable;

- (c) the person accountable shall pay interest for the period by which the original period of six months has been extended on the amount specified in clause (o) or on such lower amount as the Controller may in his discretion decide;
- (d) the rate of interest shall be six per cent per annum; provided that the Controller may, in any particular case, specify such reduced rate of interest as may be appropriate to that case in accordance with the general instructions issued by the Board in this behalf;
- (e) the amount referred to in clause (c) shall be the excess, if any, of the duty determined under section 58 or section 69, as the case may be, over the amount, if any, actually paid under clause (b) of this rule;
- (f) if the duty determined under section 58 is reduced in appeal, the interest shall be recomputed with reference to the duty as so reduced, and if the interest already paid exceeds the interest so recomputed, the excess shall be refunded."

4.44. The Committee pointed out that according to the Audit para, interest was leviable only in cases where the Controller of Estate Duty extended the time limit for filing of returns. Asked what would happen if no extension of time was applied for and granted by the Controller of Estate Duty, the Ministry stated that if no extension of time was applied for and allowed, interest was not leviable.

4.45. The Committee enquired whether the law was not anomalous in that a person who applied for extension of time and got it was liable for payment of interest, but not the person who did not apply for extension of time and hence did not get it. It has been stated in reply:

"The Ministry agree that the law is anomalous; they have taken note of the anomaly and steps would be taken to remove it at the time when amendments to the Estate Duty Act are next made, with the concurrence of the Statements."

4.46. The Committee understood that interest was chargeable at 6 per cent per annum and enquired whether the rate was not too low when compared with 9 per cent under the Income-tax Act which was increased to 12 per cent from 1-4-1972. In reply the Ministry have stated:

“The rate of 6 per cent mentioned in Rule 42(d) mentioned above may need revision in view of the fact that the rate chargeable under the Income-tax Act has been increased to 12 per cent from 1-4-1972. The Ministry have kept a note of this for suitable amendment.”

4.47. In the second case, the Committee learnt that the Ministry have stated that the omission was noticed in internal audit on 10-3-1967. In the Revenue audit conducted in December, 1970, the omission was till found to be there. The Committee asked why no action was taken on the Internal Audit Report for over three years. The following information has been furnished by the Ministry in this regard:—

“The Controller of Estate Duty has been asked to look into the circumstances relating to the delay in taking action on the internal audit report and to take suitable action against the erring officials.”

4.48. Asked how many objections pointed out by the internal audit were outstanding without rectification on 31-3-1972, it was stated that the number of mistakes outstanding without rectification on 31-3-1972 was 86,462. The Ministry further informed that the approximate revenue effect was Rs. 21.19 crores (under all taxes). The Committee enquired whether any time limit was laid down for initiating necessary action on the mistakes pointed out in Internal Audit. The following information has been submitted by the Ministry in this regard:—

“In June, 1972, the D.I.(IT&A), who is looking after the Internal Audit Parties, had fixed a time limit of three months within which the mistakes pointed out by the IAPs must be rectified.”

4.49. At the present the rate of interest chargeable for the delayed submission of returns is only 6 per cent whereas in the Income-tax Act it has since been increased to 12 per cent. Further, the interests leviable only in cases where extension of time is applied for and granted by the Controller of Estate Duty. Earlier in this Report the Committee have referred to the need for raising the rate of interest leviable for the delayed payment of Estate Duty and remov-

ing the anomaly in the matter of liability to pay interest, Immediate action as suggested therein is necessary in the case of interest payable for the delayed submission of return also.

4.59. Although in one case referred to in the Audit paragraph the omission to levy interest was noticed by Internal Audit as early as 10th March, 1967, no action was taken to rectify it till December, 1970. The Committee take a serious view of delay in taking rectificatory action on the basis of Internal Audit objections, particularly where, as in the case in question the public exchequer suffered. The position of pendency of Internal Audit objections is indeed alarming in as much as 86,462 mistakes pointed out by them were outstanding without rectification as on 31st March, 1972 and the approximate revenue effect is stated to be Rs. 21.19 crores. A time-limit of 3 months for the rectification of the mistakes has been fixed only in July, 1972. The Committee desire that the outstanding objections should be cleared within a target date not exceeding one year from now and it should be ensured that the current objections are settled strictly within a period of three months.

4.51. The Committee would like to refer to their observations relating to the working of the Internal Audit contained in paragraphs 2.27 to 2.30 of the 51st Report (Fifth Lok Sabha). These observations equally hold good in respect of the Internal Audit of other Direct Taxes. The Committee hope that suitable action will be taken on the lines indicated by them in regard to the Internal Audit of other Direct Taxes also.

Escapement of estate from duty

Audit Paragraph

4.52. (a) Under the Estate duty Act, the value of property chargeable to duty is to be determined with reference to the price it would fetch if sold in the open market at the time of the deceased's death.

4.53. In a case (assessment completed in October, 1969) the value of house property was taken as Rs. 60,000 although the value of the same property was returned as Rs. 1,93,000 based on valuer's report in the wealth-tax returns of the deceased for the years 1966-67 to 1969-70 filed by the accountable person in September, 1969. The under-valuation of the property resulted in short-assessment of estate of Rs. 1,33,000 involving duty of Rs. 32,487. The Ministry have accepted the mistake.

4.54. (b) While computing the net principal value in January, 1968, in respect of the estate of a person who died in March, 1965 the estate duty officer did not include land measuring 29 acres and 15 guntas which came into the possession of the the deceased as a result of partition of the Hindu undivided family of which he was a member. The information was available in the estate duty return filed by one of the accountable persons showing the details of the property of the Hindu undivided family. The omission to include the value of the land of Rs. 47,000 resulted in escapement of duty of Rs. 11,030. The Ministry have accepted the mistake.

[Paragraph 84(a) & (b) of the Report of the Comptroller and Auditor General of India for the year 1970-71, Union Government (Civil), Revenue Receipts.]

4.55. To a question, whether the assessments have been rectified and the additional demand recovered, the Ministry have replied:

“The assessment in the case reported in paragraph 84(a) has been revised raising an additional demand of Rs. 29,438|- as against Rs. 32,487|- reported by the Audit. The difference in the amount is due to the revised valuation (at Rs. 1,86,800 as against audit figure of Rs. 1,93,000) of the immovable property which was the subject matter of the audit objection. Report regarding collection of the addition demand is awaited from the Department. In the second case the Local Accountant General had raised three other objections which were dropped only in October, 1972, clearing the way for completion of re-assessment. The C.I.T. is being asked to ensure that the re-assessment is now expeditiously completed.”

4.56. The Committee enquired when the Wealth-tax returns on behalf of the deceased in the case in sub-para (a) was filed. In reply the Ministry have informed that they were filed on 2-9-1969. Asked whether the assessments were completed, the Ministry have replied that they were pending. The Committee desired to know whether any instructions have been issued that the Estate Duty Officers at the time of assessment, call for the Income-tax and Wealth-tax records of the deceased person and scrutinise them. In this connection, the following reply has been furnished by the Ministry.

“The Board has issued Instruction No. 473 (F. No. 236|425|72| A&PAC dated 15-11-1972 for coordinated handling of assessments relating to various direct taxes. The Board are also making a study to find out why the Income-tax,

Wealth-tax and Gift-tax records of deceased persons are not automatically transferred to the I.T.-cum-ED Circle so that the estate duty, income-tax, wealth-tax and gift-tax assessments in respect of the Estate duty of the deceased are done by the same officer, or in any case if no assessments other than the Estate duty assessment are pending, then at least all the other records are made available to the Assistant Controller."

4.57. Asked whether the case in sub-para (a) was looked into by the internal audit, the Ministry have replied in the negative.

4.58. The Committee pointed out that in the second case, estate duty officer did not make use of the information available in the assessment records. Asked whether the case was looked into by the internal audit the Ministry have replied that it was. The Committee then enquired why the mistake was not detected by them. To this the Ministry have stated:

"Although certain other minor mistakes were discovered in Internal Audit, this mistake escaped the attention of the Audit Party who have been cautioned."

4.59. In the case referred to in sub-para (a) of the Audit Paragraph, there has been a deplorable failure to correlate the Estate Duty assessment records with those of the Wealth-tax. Only after the Committee raised the point, some instructions have been issued in November, 1972 for coordinated handling of assessments relating to various direct taxes. Some further improvements are also under consideration. The Committee wish that fool-proof procedure should be evolve without delay to safeguard the interest of revenue. Suitable instructions should also be laid down in this regard for the guidance of the Internal Audit.

4.60. The Committee find that the Internal Audit Party failed to check the assessments in one case and having checked failed to detect the mistake in another. The Committee have elsewhere in this Report referred to the inadequacy of the arrangement for the Internal Audit of the Estate Duty assessments. They trust that the Internal Audit will be made effective in future.

4.61. The Committee would like the Ministry| Audit to ensure the rectification of the assessments and recovery of additional demands in these cases.

Over-assessment

4.62. The net principal value of the estate of a person who died in June, 1968, was determined at Rs. 3,62,312. Estate duty of Rs. 55,578 was levied thereon in October, 1970 as against Rs. 37,578, correctly leviable, resulting in over-charge of duty of Rs. 18,000. The mistake has been accepted by the Ministry and the assessment rectified. The original demand is stated to have been reduced by the excess levy of Rs. 18,000.

[Paragraph 86(a) of Report of the Comptroller and Auditor General of India for the year 1970-71, Union Government (Civil), Revenue Receipts.]

4.63. The Committee desired to know whether there were any arrangements for counter-check of tax calculations before assessments are finalised and demand notices issued to accountable persons. The Ministry, in a note have stated:

"Estate duty calculations are attended to by clerical staff. No arrangements exists for counter-check of tax calculations by the assessing officer before estate duty assessments are finalised and demand notices issued to the Accountable Persons. However, the Ministry is considering the issue of suitable instructions in the matter, on the lines of those obtaining on the Income-tax side."

4.64. The committee enquired about the estate duty payable after rectification of the mistake. They have stated that the net estate duty payable after rectification of mistake and appeal effect come to Rs. 10,485/- only.

4.65. Asked whether the duty was paid by the accountable persons, the Ministry replied in the negative and added that recovery certificate had been issued. The Committee desired to know the reasons for the non-recovery. The Ministry stated that the reasons were being ascertained.

4.66. This is yet another case of incorrect assessment arising out of a mistake in the estate duty calculations that went undetected. The Committee have earlier in this Report stressed the need for counter-check of tax calculations. Further, they would like to know why the mistake in this case was not detected by the Internal Audit Party.

4.67. The Committee would await a report regarding the reasons for the non-recovery of the net estate duty payable in this case.

Audit Paragraph.

4.68. An accountable person paid Rs. 33,966 for obtaining probate in respect of the deceased (died in December, 1958). Although the amount was correctly reduced from the duty payable in the assess-

ments completed in December, 1959 and revised in November, 1963, it was however, not reduced from the duty payable when fresh assessment was made to give effect to Appellate decision in September, 1968 which was subsequently revised in August, 1969. The demand raised by the department on the basis of the assessment completed in August, 1969, was also paid by the accountable person. The omission resulted in over-charge of duty of Rs. 33,966. The Ministry have accepted the mistake and stated that after rectification the duty excess-charged has been refunded/adjusted by the department.

[Paragraph 86(b) of Report of the Comptroller and Auditor General of India for the year 1970-71, Union Government (Civil), Revenue Receipts.]

4.69. Drawing attention to the fact that the assessment was made in 1959 and thereafter revised in 1963, 1968 and 1969, the Committee enquired why the assessment/reassessment was not subjected to scrutiny by internal audit. In reply, the Ministry have furnished the following note:

“According to the existing instructions the Internal Audit of Estate Duty assessments has to be done by the Deputy Controller of Estate Duty through his staff. The IAP thus constituted comprised of one person only i.e. the Head Clerk. He had to check the estate duty assessments (with net principal value assessed at Rs. 2 lakhs and above) of the entire Northern Zone consisting of 12 A.C.E.D's charges. There was considerable rush of work and on account of that the case could not be looked into.”

4.70. This is a case of over-assessment at the time of revision while giving effect to an Appellate decision. The Committee have been informed that the Internal Audit Party could not look into the assessment due to considerable rush of work. According to the existing instructions the Internal Audit of Estate Duty assessments has to be done by the Deputy Controller of Estate Duty through his staff and the party thus constituted comprises only one person who has to check the assessments of the entire zone. The Committee desire that the adequacy of this arrangement should be carefully examined and suitable measures taken so that the plea of rush of work may not have to be advanced in future.

V

ARREARS OF DEMANDS*

Audit Paragraph

5.1. Arrears of Sur-tax demands outstanding on 31st March, 1971 are as follows*:

Relating to demand raised in	Amount outstanding (In lakhs of Rupees)
1964-65	6.87
1965-66	9.64
1966-67	8.80
1967-68	26.86
1968-69	58.26
1969-70	140.50
1970-71	400.07
	<hr style="width: 10%; margin: 0 auto;"/>
TOTAL	651.00
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5.2. The Committee pointed out that as per para 74(b) (iii) of Audit Report, 1970, the arrears of sur-tax outstanding as on 31st March, 1969, out of demands raised in 1964-65 and 1965-66 were Rs. 4.1 lakhs and Rs. 6.81 lakhs respectively. However, the arrears outstanding as on 31.3.1971 have been given as Rs. 6.87 lakhs and Rs. 9.64 lakhs respectively for the same years viz. 1964-65 and 1965-66. Thus, the correct position indicated. The Ministry, in a note, have stated: The Committee desired this discrepancy to be reconciled and the correct position indicated. The Ministry, in a note, have stated: "While reporting arrears as on 31.3.1971, some of the Commissioners have given figures of arrears in respect of assessment years instead of financial years. The discrepancy is very much regretted. Reconciliation is being attended to and the result will be intimated to the Committee in due course."

Paragraph 87(iii) of the Report of the Comptroller and Auditor General of India for the year 1970-71, Union Government (Civil) Revenue Receipts

*Provisional figures are as furnished by the Ministry.

5.3. The Committee desired to know the number of cases where the demand of Rs. 6.51 crores was locked up and also the amount, out of the arrears, estimated to be irrecoverable. The Ministry have stated (October, 1972) that the demand of Rs. 6.51 crores is locked up in 507 cases and that Rs. 12.5 lakhs are estimated to be irrecoverable.

5.4. Asked about the target date fixed for the recovery of arrears, the Ministry have replied that no target date has been fixed as feasible but recovery pressure is kept up generally.

5.5. The arrears of sur-tax demands outstanding on 31st March, 1971 aggregated Rs. 6.51 crores in 507 cases of which only a sum of Rs. 12.5 lakhs is estimated to be irrecoverable. As some of the arrears pertain to the period as early as 1964-65, the Committee desire that a target date should be fixed for the recovery and progress closely watched.

5.6. The Committee have reasons to believe that the arrears have not been computed properly. The arrears outstanding as on 31.3.1969 out of the demands raised in 1964-65 and 1965-66 were reported earlier as Rs. 4.1 lakhs and Rs. 6.81 lakhs respectively. However, the figures as on 31.3.1971 now given are Rs. 6.87 lakhs and Rs. 9.64 lakhs respectively for the same years 1964-65 and 1965-66. Thus the arrears in respect of these years have increased instead of decreasing. This discrepancy should be reconciled early and the correct position of the arrears intimated to the Committee.

ARREARS OF ASSESSMENTS

Audit Paragraph

6.1 The position regarding disposal of Super Profits Tax assessments and Sur-tax assessments during 1970-71 and the assessments pending on 31st March, 1971 are as follows.

	Super Profits Tax Rs.	Sur-Tax Rs.
1. No. of cases for disposal during 1970-71	186	4,662
2. No. of cases disposed of provisionally . . . . .	..	265
3. No. of cases disposed of finally	177	2,058
4. Amount of demand raised on provisional assessments . . . . .	..	8.94 crores
5. Amount of demand collected provisional assessments . . . . .	..	7.57 crores
6. Amount of demand raised on final assessments	1.70 crores	19.37 crores
7. Amount of demand collected on final assessments	1.34 crores	12.61 crores
8. No. of cases pending as on 31-3-1971	62	2591
9. Approximate amount of tax involved in (8)	0.23 crores	18.88 crores

6.2. (b) Year-wise details of assessments under Sur-tax Act pending on 31st March, 1971, are indicated below:—

Year	No. of assessments
1964-65	65
1965-66	169
1966-67	204
1967-68	287
1968-69	434
1969-70	528
1970-71	910
TOTAL	2,597

[Paragraph 88(ii) (a) and (b) of the Report of Comptroller and Auditor General of India for the year 1970-71, Union Government (Civil), Revenue Receipts.]

6.3. The Committee were informed by Audit that the Ministry in their letter dated 1-7-1972 have furnished the following revised figures of pending S.P.T. and Sur-tax assessments:

	Super Profits Tax	Sur-Tax
1. No of cases for disposal during 1970-71	186	4,662
2. No. of cases disposed of provisionally. . . . .	..	265
3. No. of cases disposed of finally	117	2,050
4. Amount of demand raised on provisional assessments		8.94 crores
5. Amount of demand collected on provisional assessments . . . . .	..	7.75 crores
6. Amount of demand raised on final assessment	1.70 crores	19.37 crores
7. Amount of demand collected of final assessments	1.34 crores	12.61 crores
8. No. of cases pending as on 31-3-1971	69	2,610
9. Approximate amount of tax	0.23 crores	18.88 crores

(b) Year-wise break-up of the Sur-tax cases pending as on 31-3-1971 is given below:—

Year	No. of assessment
1964-65	65
1965-66	169
1966-67	204
1967-68	287
1968-69	434
1969-70	528
1970-71	923
TOTAL	2610

6.4. The Committee pointed out that in paragraph 1.16 of their 100th Report (1969-70), the P.A.C. had observed that the Board would have to act with greater vigour for the expeditious clearance of arrears of Super Profits Tax and Sur-Tax assessments. Asked what

action had been taken on this recommendation, the Ministry stated: "The Director of Inspection (Income-tax & Audit) was asked to check up how far the instructions issued in November, 1969 in pursuance of the PAC's recommendation contained in para 1.34 and 1.35 of their 73rd Report (Fourth Lok Sabha) were being followed by the field offices. The Director thereupon prescribed a detailed quarterly report with a view to watching the progress of disposal of these cases; the Director would also be checking up the progress of disposal of S.P.T. and Sur-tax cases during his tours to the Commissioners charges."

6.5. The Committee were informed that out of 4,662 Sur-tax cases for disposal during 1970-71 2610 cases were still pending assessments on 31.3.1971. Asked about the slow progress in their disposal, the Chairman, CBDT replied: "These cases will be dealt with by income-tax officers in charge of company cases. The number of cases vary and in the case of company ITOs, there will be about 250 cases a year. Sur-tax cases will be dealt with after these company cases are disposed of." The Committee desired to know the reason for adopting this procedure. In reply, the witness stated: "Tax determined on the completion of income tax assessment of companies has to be deducted in the computation of chargeable profits for sur-tax purposes." The Committee wanted to know whether there was any difficulty for an income tax officer while dealing with company cases, to complete the surtax cases also. The Chairman CBDT replied that ordinarily it should not. He further stated: "There is a lot of doubt as to what constitutes reserve and for that purpose some of the cases are there where it was not clarified. Some cases are to be kept pending for the same purpose." The Finance Secretary, however, stated: "Basically the I.T.O.s have been concentrating more on the Income-tax cases and they have tended to give this lower priority." Asked why a special cell could not be created for the purpose of finalising these matters, the Chairman, CBDT stated: "I have told the commissioners about this. There used to be excess profits tax special cell. Like that we may have." To a question, the Finance Secretary, stated: "There is a lot of improvement and the number of cases have come down to 2300 in 1971-72. But still it is not coming upto expectations. It is still 2,000 short. The problem is very big but there is some improvement. Something will have to be done about it."

6.6. The Committee desired to know whether the Government proposed to insert a time-limit in the Sur-tax Act, with a view to expedite completion of assessments under the Sur-tax Act. The Finance Secretary, replied: "Legally there is no target date. But the Board has recently issued instructions to complete Wealth Tax assess-

ments within four years. In Sur-tax also we are going to lay down four year limit. Then we intend to reduce it to three years and then to two years." Subsequently the Ministry have furnished a copy of the instructions wherein the Board have administratively fixed time-limits for the disposal of S.P.T. and Sur-tax assessments. (Appendix II).

6.7. The Committee are concerned to note that 69 super-profit tax assessments and 2610 sur-tax assessments involving tax of about Rs. 19.11 crores were pending as on 31st March, 1971. As the yearly collections of super-profit tax-sur-tax ranged between Rs. 10.92 crores and Rs. 13.43 crores, the arrears on assessments involving over Rs. 19 crores cannot be taken lightly. Admittedly the Income-tax Officers have been concentrating more on the income-tax cases and have tended to give super-profit tax and sur-tax assessments a lower priority which should not be encouraged. These cases should be taken up along with the connected company assessments of Income tax. The Committee learned that the Central Board of Direct Taxes have issued instructions requiring all the pending super-profit tax assessments and sur-tax assessments upto 1968-69 to be completed by 31.3.1972. If the progress is not found encouraging, the Committee would suggest that the desirability of creating a special cell for the purpose of finalisation of these long pending cases should be considered.

VII

FRAUDS AND EVASIONS*

Audit Paragraph

	Wealth tax	Gift tax
7.1 (i) No. of cases in which penalty u/s 18 (1) (c)/17 (1)(c) was levied	574	121
(ii) No. of cases in which prosecutions for concealment was launched . . . . .	..
(iii) No. of cases in which composition was effected without launching prosecution		
(iv) Concealment of net wealth/value of gift involved in (i)	Rs. 808.8 lakhs	Rs. 6.42 lakhs
(v) Total amount of penalty levied	Rs. 45.78 [akhs	Rs. 4.21 lakhs
(vi) Extra tax demanded on concealment	Awaited from the Ministry	
(vii) Cases out of (2) in which convictions were obtained . . . . .		..
(viii) Composition fees levied in respect of cases in (ii) . . . . .	..
(ix) Nature of punishment in respect of (vii) . . . . .		..

[Paragraph 89 of Report of the Comptroller and Auditor General of India for the year 1970-71 Union Government (Civil), Revenue Receipts.]

7.2. The Committee were informed that the number of cases in which concealment of wealth was detected and the amount of wealth involved and the number of cases in which prosecution was launched for the three years 1968-69, 1969-70 and 1970-71 were as follows:—

Year	No. of cases of concealment of wealth	Amount of wealth (in crores of Rs.)	No. of cases of concealment in which prosecution was launched
1968-69	380	7.37	1
1969-70	352	4.12	4
1970-71	574	8.08	Nil

The Committee enquired why no action was taken to prosecute assesseees who had concealed wealth, although the number of cases of

*Figures are furnished by the Ministry.

concealment of wealth and amount involved therein had gone up in 1970-71. The Ministry have replied as follows:—

“For the purpose of imposing penalty under the Wealth Tax Act “deemed concealment” can also be taken into account whereas for purposes of prosecution only cases of actual concealment can be considered. What is “deemed concealment” is stated in Explanation 1 to s. 18 of the Wealth Tax Act and includes cases where the value of an asset returned is less than 75% of the value of asset determined, the value of any debt returned is more than 25% of the value assessed and where the net wealth returned by any person is less than 75% of the net wealth assessed. In such cases unless the assessee proves that the failure to furnish the correct return did not arise from any fraud or gross or wilful neglect on his part he will be deemed to have concealed the particulars of assets or furnished inaccurate particulars of assets or debts for the purpose of imposition of penalty. However, for the purpose of prosecution the Department has to show that an item of asset has been actually left out or a non existent debt has been wrongly claimed.

2. Moreover, the degree of evidence in the case of prosecution is much more than the evidence required for the purpose of penalty. Therefore, prosecution is launched only after very careful scrutiny. This requires more detailed examination and prosecutions are generally not launched in the same year in which the penalties are imposed. There may be cases in which penalties have been imposed during 1970-71 but in which prosecution might have been launched in later years or might still be considered.”

7.3. The Committee pointed out that on concealment of wealth of Rs. 808 lakhs, penalty of Rs. 45.78 lakhs (i.e. 5.7%) was levied. Under the law the minimum penalty leviable should be equivalent to the wealth concealed i.e. Rs. 808 lakhs. The Committee wanted the Ministry to clarify the large variations in the quantum of penalty. In this connection, the Ministry have submitted the following information:

“The law under which the minimum penalty liable should be equivalent to the wealth concealed came into operation only with effect from 1-4-1964. For prior period the penalty was leviable at suitable amount with reference to the amount of tax on the wealth concealed. This is the main reason for variation between the wealth concealed and quantum of penalty.”

7.4. The Committee note that the number of cases of concealment in which prosecution was launched was 1 in 1968-69 and 4 in 1969-70. There was no such case during the year 1970-71. According to the Ministry 'deemed concealment' can also be taken into account for the purpose of imposing penalty under the Wealth Tax Act whereas only cases of actual concealment can be considered for purposes of prosecution. The Committee trust that all the 574 cases of concealment of wealth that came to light during 1970-71 would be carefully reviewed with a view to launching prosecution in appropriate cases. In this connection they would like to refer to para 5.10 of the 51st Report (Fifth Lok Sabha) wherein the need for launching prosecution as deterrant to tax evasion was stressed.

7.5. Although under the law in force from 1st April, 1969, the minimum penalty leviable is equivalent to the wealth concealed the penalty levied during 1970-71 for the concealment of wealth of Rs. 808 lakhs was only Rs. 45.78 lakhs. The Ministry's explanation for the variation between the wealth concealed and the quantum of penalty as due to the lower rate of penalty for the period prior to 1st April, 1969 does not appear to be convincing. The Committee would, therefore, suggest that a competent legal opinion may be taken on the question whether the crucial date for determining the quantum of penalty is the date of filing of the return or the date of passing the assessment order. This suggestion had already been made in para 5.12 of the 51st Report (Fifth Lok Sabha). The Committee would await the legal opinion and the action taken in pursuance thereof.

VIII

GENERAL

Unpreparedness of the witnesses appearing before the Committee

8.1. During the course of their examination, the Committee came across several instances where the official witnesses were not prepared fully.

8.2. Typical cases which revealed the unpreparedness of the witnesses are given below:

- (1) At their sitting held on the 26th October, 1972, the Committee resumed their examination of certain paragraphs included in Chapter V of the Report of the Comptroller and Auditor General of India for the year 1970-71, Union Government (Civil), Revenue Receipts, relating to Other Direct Taxes.

8.3. In the Audit paragraph 82(i), it has been stated that in the estate duty assessment of a person (who died on the 8th January, 1969) completed in July, 1969, the income-tax liability for the assessment years 1968-69 and 1969-70 was allowed as a deduction to the extent of Rs. 78,313, though the actual liability amounted to Rs. 30,483 only. While examining the above paragraph, the Committee desired to know the claim put forward by the accountable person as debt in respect of outstanding income-tax liabilities. The Member, Central Board of Direct Taxes, replied: "We shall have to see from the original files." The Committee pointed out that this year unlike the previous years (when all the Audit paragraphs were examined during evidence), the Ministry were intimated that only a limited number of paragraphs would be examined and even for those the replies were not forthcoming from the representatives of the Ministry. The Finance Secretary stated: "I have noted your observations and I shall see what we can do to remedy the situation. It calls for a measure of reorganisation as far as I feel, because we are not able to handle adequately the objections in the Committee as far as this Board is concerned; in the other Board it was somewhat different and we were able to answer your points."

8.4. The Committee desired that the witnesses should get together and see that the readiness for answering questions at least is ensured apart from the follow-up and other things.

8.5. Considering the unpreparedness of the witnesses, the Committee had to adjourn the sitting held on the 26th October, 1972 and also to cancel the sitting to be held on the forenoon of the 27th October, 1972 in order to give further time to the witnesses to come fully prepared for examination of certain paragraphs included in Chapter IV of the Audit Report relating to Income-tax.

The Committee resumed their examination of certain paragraphs included in Chapter IV of the Report of the Comptroller and Auditor General of India for the year 1970-71, Union Government (Revenue Receipts) relating to Income-tax at their sitting held on the 30th October, 1972 (forenoon).

8.6. It has been reported in the Audit paragraph 44(a) of the Report that in an assessment involving an income of Rs. 2,19,289, tax to the extent of Rs. 64,385 was short-levied due to non-levy of tax on the first Rs. 1 lakh and non-levy of surcharge of the earned income in excess of Rs. 1 lakh. Accepting the mistake, the Ministry had intimated that the assessment had been rectified and additional demand for the amount created. While examining the above paragraph, the Committee enquired whether the additional demand had since been recovered. The Member, Central Board of Direct Taxes, stated that the assessment was set-aside by the Appellate Assistant Commissioner. When asked for the grounds for setting aside the assessment, the witness replied: "That is not immediately available with me." The Committee suggested that whenever witnesses appeared before the Committee, they should come fully prepared with all details.

Paragraph 44(b) brought out mistakes made in computation of income in a case. Overlooking the fact that the assessee had already debited his accounts relevant for the assessment year 1965-66 (completed on 30th March, 1970) with expenditure of Rs. 23,50,528 towards interest on borrowed capital, the Income-tax Officer allowed further deduction of Rs. 23,50,523. This together with two other minor mistakes resulted in excess carry forward of loss of Rs. 21,81,208 for adjustment against future years' profits. The Ministry had accepted all the mistakes and the report regarding the net reduction in carry-forward loss was awaited.

8.7. During the course of the examination, the Committee were informed that the assessment had since been rectified in September,

1972 and the carry-forward loss was reduced to Rs. 2 lakhs. While explaining the reasons for the delay in rectifying the assessment, the Member, Central Board of Direct Taxes, stated: "The mistake was rectified and the loss was recomputed in September, 1972. We come into the picture when para comes to us. Revenue Audit Parties are all-over the country. They raise objection with the Income-tax Officer at first stage. For first time it comes to the notice of the Income-tax Officer. If he accepts, it is settled; If he does not accept, he argues with them. If it is accepted it is included in the list of the Deputy Accountant General to the Commissioner concerned. At that time the Board does not know."

8.8. The Committee learnt from Audit that according to the normal and well understood procedure, the Audit objection was raised at junior level in August, 1970 and that it was replied in September, 1970. In December, 1970, simultaneously a copy was sent to the Directorate of Inspection, the Directorate attached to the Board. The Director (who was under the executive control of the Board) knew that the Income-tax Officer at ground level had accepted it. The Committee desired to know the action taken by the Directorate of Inspection on the copy of the audit objection received by them. The witness replied: "I do not know what happened in the office of the Director of Inspection." When enquired whether it was not possible for the Board to obtain the file from the office of the Director of Inspection which was located in Delhi, the witness answered in the affirmative.

8.9. The Committee then wanted to know the reasons for the delay in completion of the assessment (assessment completed at the fag end of the limitation period) and also the circumstances in which the mistake had occurred. The Member, Central Board of Direct Taxes, stated: "In this case, we have not been able to get the file in the short space of time that was left to us to go into this. We have been able to give you general reasons. We have not gone into the individual cases."

In the case reported in paragraph 44(d), the Income-tax Officer overlooked the fact that the assessee had already debited its Profit and Loss Account with a sum of Rs. 1,71,229 towards staff gratuity and bonus. The omission led to incorrect deduction of Rs. 1,71,229 from the taxable income resulting in short levy of tax of Rs. 85,615. While accepting the mistake, the Ministry had intimated that out of the additional demand created, Rs. 34,537 was recovered and the balance of Rs. 51,078 was yet to be realised. While

examining the paragraph, the Committee enquired whether the balance of Rs. 51,078 had since been recovered. The Member, Central Board of Direct Taxes replied: "The assessee paid Rs. 34,537. After that the assessment was set aside by the Appellate Assistant Commissioner and the demand then became vacated." When asked for the grounds for setting aside the assessment, the witness stated: "I do not have the grounds with me. The case is in Madhya Pradesh.... The file would be in Indore... Unless I see the file I cannot say why the Appellate Tribunal set it aside."

8.10. The Committee suggested that in future, in regard to all audit paragraphs, the relevant files should be obtained before-hand by the Board when they came before the Committee which would help the Board and save a lot of trouble.

The Central Board of Direct Taxes issued executive instructions in November, 1966 and October, 1969 that bonus, commission or any other cash allowance paid as employee's regular salary should not be treated as perquisites. As the Income Tax Act did not provide for such an interpretation, it was pointed out to the Board by Audit that the instructions were contrary to Law. Whereupon, the Board cancelled their executive instructions of November, 1966 and October, 1969 in June, 1971. During examination, the Committee asked for the circumstances which led to the issue of the above circulars and whether the opinion of the Law Ministry was obtained before their issue. The Member, Central Board of Direct Taxes, stated: "As far as the first point is concerned as to who raised the question, I am not able to answer this. The 1966 file is not with us. It could not be traced in the Board. The circular is there. But the actual portion of the file, documents relating to that circular could not be traced.... These files are weeded out."

The Chairman, Central Board of Direct Taxes, added: "Probably, with some effort we will be able to trace the file. The file might have been misplaced. I will try to produce it in the afternoon."

Delay in furnishing information to Audit in respect of draft Audit paragraphs issued by Audit for incorporation in the Audit Reports

8.11. The Committee find that in a number of cases the draft Audit paragraphs sent by them to the Ministries were not replied to in time* before finalisation of the Audit Reports.

*In paragraph 12 of the Report on the accounts for 1943-44, the Public Accounts Committee suggested that a maximum period of six weeks should be allowed to the Departments to accept or modify the terms of the paragraphs failing which Audit should be at liberty to consider its draft as final. The Government of India in consultation with the Auditor General had accepted the Committee's suggestion. Necessary instructions in this regard had been issued by the Ministry of Finance (Department of Expenditure) in June, 1960. (Ministry of Finance -Deptt. of Expenditure O. M. No. F. 32 (9) —E. G. I[60 dated the 3rd June, 1960).

8.12. In the following cases, Ministry's replies were received in respect of paragraphs included in Chapters IV & V of the Report of the Comptroller and Auditor General of India for the year 1970-71, Union Government (Revenue Receipts), after finalisation:

Sl. No.	Para No.		Date of forwarding the para to the Ministry	Date of receipt of reply from Ministry	
<i>Chapter IV—Income Tax</i>					
1	47 (e) (ii)	. . . . .	30-10-1971	13-4-1972 & 17-5-1972
2	52 (b)	. . . . .	4-10-1971	28-2-1972 & 8-3-1972
3	55(i)	. . . . .	12-11-1971	8-3-1972
4	56(b)	. . . . .	30-11-1971	7-3-1972
<i>Chapter V—Other Direct Taxes</i>					
5	73(ii) (b)	2-2-1970	7-8-1971	5-9-1972
6	82(i)	5-2-1971	7-8-1971	27-5-1972
7	82(iii) (a)	5-2-1971 19-2-1971	7-8-1971	27-6-1972
8	83(b)	23-12-1970	23-10-1971	12-1-1972 27-5-1972
9	91(b)	2-11-1970	7-3-1972	Commissioner's reply was re- ceived on 15-6-1972.

8.13. In the case of paragraphs 73(ii) (b) and 82(i) facts mentioned in the Audit Report were subsequently disputed by the Ministry.

8.14. Further in the following four cases, no reply was received from the Ministry till the sitting of the Public Accounts Committee (October 1972):

Sl. No.	Para No.	Date of issue of objection by A.G.	Date of forwarding the para to the Ministry	Date of receipt of reply from Ministry
68 (i)		23-10-1970	3-8-1971	Reply not received.
		7-11-1970	3-8-1971	..
		11-11-1970	3-8-1971	..
		24-5-1971	30-10-1971	..

8.15. The Committee examined certain paragraphs included in Chapter V of the Report of the Comptroller and Auditor General of India for the year 1970-71, Union Government (Civil) (Revenue Receipts) relating to other Direct Taxes on 26th October, 1972. In the course of the evidence it became clear that the official witnesses were not prepared fully. They were unable to reply satisfactorily to the questions put by the Committee relating to points of even factual nature arising out of the Audit paragraphs. The then Finance Secretary himself stated: "We are not able to handle adequately the objections in the Committee as far as this Board is concerned." Considering the unpreparedness of the witnesses the Committee had to adjourn the sitting and cancel the sitting to be held in the forenoon of 27th October, 1972 in order to give further time to the witnesses to come fully prepared for examination of certain paragraphs included in Chapter IV relating to Income-tax. Even on resumption of examination regrettably there was no improvement in the preparedness of the witnesses.

8.16. In some cases the Committee found that the draft Audit paragraphs sent by the C&AG to the Ministry were not replied to in time before the finalisation of his report, with the result that even the factual position brought out in the paragraphs was contested at the time of Committee's examination. In some cases the files containing the relevant information were stated to be not available with the witnesses.

8.17. The position brought out in the foregoing paragraphs discloses an attitude towards the work of this Committee, which can at best be described as unhelpful. The Committee can discharge their duty satisfactorily only if they receive the fullest cooperation from the

Ministry. This cooperation they can give by giving importance to Audit objections in the first instance, and then by coming fully prepared to satisfy whatever relevant questions the Members of this Committee may wish to put. It is upto the Ministry to collect all relevant information in regard to each Audit objection and they should be able to answer all reasonable questions that the Members may wish to put. The Committee are confident that appropriate instructions will be issued at the highest level requiring officers who appear before the Committee, to come fully prepared.

8.18. Though their observations relating to unpreparedness have been made in the immediate context of the Direct Taxes Report, the Committee are constrained to note that such unpreparedness has been almost universal, and, therefore, it is in their view necessary to issue instructions generally to all the Ministries.

NEW DELHI;

April, 24, 1973.

Vaisakha 4, 1895 (Saka).

ERA SEZHIYAN,

Chairman,

Public Accounts Committee.

APPENDIX I

(Ref: Para 2.43 of the Report)

F. No. 328|120.72-W. T.

GOVERNMENT OF INDIA

CENTRAL BOARD OF TAXES

NEW DELHI, the 24th October, 1972.

To

All the Commissioners of Income-tax & Wealth-tax.

Sir,

SUBJECT:—*Wealth-tax assessments—years 1967-68 years and onwards—
Variation in value of foreign assets due to devaluation—
Review regarding—*

It has been brought to the notice of the Board by the Revenue Audit that in several wealth-tax assessments, involving the assessment years 1967-68 and onwards, the Wealth-tax Officers have failed to revalue the foreign assets on such valuation dates as were subsequent to the date of devaluation of the Rupee i.e. 6-6-1966. This oversight on the part of the Wealth-tax Officers has resulted into a substantial loss to the revenue. When the cases, in which audit objections were raised, were scrutinised by the Department it was further noticed that the Wealth-tax Officers had also failed to adopt the correct valuation of the foreign assets, located in countries having their currency based on Pound Sterling, subsequent to the devaluation of Sterling on 18-11-1967. In other words, the value of the foreign assets of the assesseees should have been duly enhanced in accordance with the official rates of exchange subsequent to the devaluation of Rupee on 6-6-1966; and also their value reduced correspondingly subsequent to the devaluation of the Pound Sterling on 18-11-1967.

2. The Board desire that an immediate review of all cases of Wealth-tax assesseees, having foreign assets, whose assessments have been completed for the years 1967-68 and onwards, should be undertaken with a view to examine if the value of these foreign assets was correctly adopted by the Wealth-tax Officers in respect of the assessment years 1967-68 and onwards. The result of this review i.e. the

number of under-assessment|over-assessments detected, the action taken, and the revenue effect thereon etc. should please be intimated to the Board by 30th December, 1972.

3. It should also be impressed on all assessing officers in your charge that in the pending wealth-tax assessments for 1967-68 and on wards the correct value of foreign assets must be adopted on the basis of the devaluation of rupee and|or the devaluation|revaluation of the currency of such foreign countries where the assets of the assessee are located.

Yours faithfully,
Sd/-

BALBIR SINGH,
Secretary, Central Board of Director, Taxes.

Copy to :—

1. All Directors of Inspection.
2. The Director I.R.S. (DT) Staff College, Nagpur etc etc.

APPENDIX II

[Ref. Para 6.6 of the Report]

(COPY)

INSTRUCTION NO. 476.

F. No. 229|39|72-IT (A.II)

GOVERNMENT OF INDIA

CENTRAL BOARD OF DIRECT TAXES

New Delhi, the 16th Nov. 1972.

To

All Commissioners of Income-tax.

Sir,

SUBJECT: *Super Profits Tax Act, 1963 and the Companies (Profits) Surtax Act, 1964 Assessments under—Timely completion of.*

I am directed to say that the Board has viewed with concern the pendency of assessments under the Super Profits Tax Act, 1963 and the Companies (Profits) Surtax Act, 1964. Super Profits Tax Act, 1963 was in force only for assessment year 1963-64. There can be no reason why any case under that Act should still be pending. Board has desired that all the pending assessments under the Super Profits Tax Act, 1963 *must* be completed by 31st March, 1973.

2. No timelimit has been prescribed under the Sur-tax Act, 1964 for completion of assessments. However, the Board has laid down the following timelimits:—

Surtax pertaining to asstt. year	Time limit for disposal
Up to 1968-69	31-3-1973
1969-70 & 1970-71	31-3-1974
1971-72 & 1972-73.	31-3-1975

Thereafter the assessments have to be completed within two years as in the case of income-tax assessments.

3. Necessary instructions may please be issued to Income-tax Officers to adhere to the dates indicated above for disposal of assessments under the Super Profits Tax Act and the Surtax Act.

Yours faithfully,

Sd.]- T. P. JHUNJHUNWALA,

Secretary, Central Board of Direct Taxes.

Copy forwarded to.....etc. etc.

APPENDIX III

Summary of main Conclusions/Recommendations

S. No.	Para No.	Ministry/Deptt. Concerned	Conclusion/Recommendation
1	2	3	4
1	17	Finance	<p>According to Audit proportionate capital should be reduced from total capital of a company when income from new industrial undertakings is excluded from chargeable profits for the purpose of calculation of sur-tax. The Ministry are, however, of the view that where there is a deduction the capital should not be reduced but where an amount is not liable to tax at all under the Act, the proportionate capital should be reduced. Although the Audit objection was raised in 1971, the matter was referred to the Ministry of Law only on 9th January, 1973, after the Committee's examination. The Committee cannot but deprecate such delays. They would like to know the legal opinion and the action taken on the basis thereof.</p> <p>In their 50th Report (Fifth Lok Sabha) the Committee had stressed the need to improve the Wealth-tax Administration. Although the number of assessees had gone up from 1,38,635 in 1969-70 to 1,73,255 in 1970-71 and the number of completed assessments had increased from 1,69,572 to 1,99,226, the tax collections had suffered a reduction from Rs. 55.62 crores to Rs. 15.31 crores. <i>Prima facie</i>, this is a situation which, needs to be explained. A detailed examination in other words is called for.</p>
2	2.10	-do-	

3

2.11

Finance

The Committee find that the Budget Estimate of Wealth-tax collection was raised from Rs. 12 crores in 1969-70 to Rs. 18 crores in 1970-71 because of imposition of wealth-tax on agricultural land. The actual collections during 1970-71 were, however, Rs. 15.31 crores. The shortfall has been explained as partly due to increase in the number of gifts made by the assessees during the year 1969-70 in the wake of the Land Ceiling laws. If this position is correct the gift tax realisation on account of gifts would have gone up. It is, however, seen that in 1969-70 and 1970-71 against the Budget Estimates of Rs. 1.50 crores the actual realisations of gift tax were Rs. 2.02 crores and Rs. 2.45 crores respectively. As the rate of tax on gifts is higher and the basic exemption limit is strictly lower as compared to wealth-tax, the increase in gift tax should have been much more than the fall in the wealth-tax anticipated to be collected from agricultural lands. The position should therefore, be examined with a view to checking evasion of gift tax.

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2.12

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The Committee have been stressing the necessity to intensify the survey of house properties. They find that out of about Rs. 2.32 lakhs premises surveyed during 1970-71 and 1971-72, 39,000 new wealth-tax cases have been discovered. The survey in all the char ~~cases~~ ~~should~~ ~~be~~ completed under a time-bound programme.

The test Audit of wealth-tax, gift-tax and Estate Duty assessments by Revenue Audit during the year 1970-71 revealed 4734, 671 and 855 cases of under-assessment involving Rs. 69.13 lakhs, Rs. 5.11 lakhs and Rs. 26.93 lakhs respectively. The cases of over-assessments noticed were 1706, 267 and 193 involving Rs. 8.11 lakhs, Rs. 1.59 lakhs and Rs. 4.38 lakhs respectively. The Committee regret that the Ministry are not in a position to give complete information regarding the action taken on all these cases. In this connection they would like to refer to para 2.327 of their 51st Report (Fifth Lok Sabha) on Income-tax. They desire that there should be a time-limit for taking corrective action on mistakes reported by Audit and a centralised periodical review in the case of other direct taxes also.

That there is no centralised control over the work of the Internal Audit of other direct tax assessments is evident from the fact that the Ministry are unable to intimate the number of mistakes pointed out by Internal Audit and the action taken by the Department. In paragraphs 2.27 to 2.29 of the 51st Report (Fifth Lok Sabha), the Committee had indicated how there could be a purposeful review of the work of Internal Audit of income-tax assessments and a better coordination between the Internal Audit and Revenue Audit to have maximum impact on the revenue collecting machinery. The Committee desire that action on these lines should be taken in regard to the Internal Audit of other direct taxes also. They hope that future Audit Reports would include a review of the working of Internal Audit as furnished by the Ministry.

7 2.27 Finance The work of Internal Audit is not as though as it ought to be. This is partly so because of the manner in which the personnel for Internal Audit is recruited. The Internal Audit has an extremely important role to perform and it cannot be too strongly emphasised that it should be manned by competent persons with satisfactory career prospects. This is not the case today and the Committee would, therefore, recommend that this suggestion be perused in a comprehensive manner expeditiously.

The Committee are constrained to note that in as many as six cases of assessments for the year 1969-70 the rates of tax applicable for the assessment year 1968-69 were wrongly applied resulting in short levy of wealth-tax of Rs. 47,077. Such mistakes in applying the rates are simply inexcusable. A review so far done has brought out other 5 cases involving a tax effect of Rs. 38,616. This shows that this type of mistake is fairly widespread. The Committee desire that the review should be completed expeditiously and recovery effected besides taking appropriate disciplinary action against all officials concerned for the carelessness. The instructions issued recently making the wealth-tax officials responsible for checking tax calculations instead of by the clerical staff, if enforced rigorously will certainly ensure that such mistakes will not occur. The Committee trust that the enforcement will be strict.

For levy of wealth-tax, assets situated in foreign countries are to be valued in Indian currency at the rate of exchange prevailing on the valuation dates. The Committee are distressed to learn that the omission to adopt the correct rate of exchange due to devaluation of Indian currency in June, 1966 and the failure to convert the value of assets located in Ceylon into Indian rupees resulted in under-charge of net wealth of Rs. 21,34,961. The Board have ordered a review of all cases of wealth-tax assesses having foreign assets whose assessments have been completed for the years 1967-68 onwards with a view to examining if the value of the foreign assets was correctly adopted. The Committee would like to know the outcome of the review.

The Committee takes a serious view of the failure of the Internal Audit in that the omission was not detected by them in 4 assessments of 2 assesses checked. It is distressing to note the failure of the Internal Audit in not detecting simple arithmetical errors in the tax calculations. The Committee deprecate the tendency to enlarge the scope of check in a piecemeal fashion. They desire that the position should be comprehensively examined and detailed checks laid down so that wherever there is a failure of check a plea may not be taken by the Internal Audit that a particular item has not been specifically included in the items to be checked by them.

Although in this case the assessing officer correctly calculated the additional wealth-tax payable by the assessee on immovable property situated in an urban area, the additional tax was not in-

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cluded in the demand notice issued owing to a clerical error which resulted in short-recovery of tax to the extent of Rs. 24,308. While the Committee await a report regarding recovery of the amount, they would like to refer to para 2.19 of their 50th Report (Fifth Lok Sabha) wherein the need for counter-check of assessments before they are finalised and demand notices issued, was stressed. The Committee desire that necessary instructions for the counter-check of tax calculations in respect of wealth-tax, gift-tax and estate duty assessments as in the case of income-tax be issued without delay and the Committee informed of action taken.

Levy of additional wealth-tax on the urban lands and buildings owned by individuals and Hindu Undivided Families under the Finance Act, 1965 was intended to curb excessive investment in urban property as without such a curb investment in more productive directions could not be encouraged. The Committee find that no review has been conducted to find out how far this objective has been achieved. As eight years have elapsed they desire that such a review should be conducted now after ascertaining the revenue realised through the additional wealth-tax and the number of cases involved from year to year. The findings and further measures proposed to be taken to achieve the objective may be reported to the Committee.

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2.61 -do- The Committee suggest that a review of the realisation of the socio-economic objectives underlying the various fiscal enactments made from time to time should be undertaken periodically so that necessary timely correctives may be applied.

14 2.69 -do- The Audit para deals with exemptions in respect of house parties incorrectly allowed in three cases. In one case the exemption was allowed to the executor of an estate although the property did not belong to him. In other two cases though the house property belonged to a firm in which the two assessee were partners, exemption was allowed in the hands of the partners. The Internal Audit Party is stated to have failed to detect the mistake in all these cases in view of a legal point involved. In view of this the Committee are unable to appreciate that no general instructions have been issued by the Ministry especially when several mistakes in the grant of exemption under the Wealth-tax Act in respect of residential property have been brought to their notice through successive Audit Reports. The Committee stress that the Ministry ought to clarify the relevant portions of the Act for the guidance of the assessing officers and the Internal Audit.

15 2.70 -do- As regards the exemption in respect of the house property not belonging to the executor, the Committee have been informed that in view of the amendment to Section 5(1)(iv) of the Wealth-tax Act, the executor would be able to get exemption w.e.f. 1-4-1972. As the house should still belong to the assessee, the Committee would suggest that Government should examine whether the

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executor would be able to get exemption under the amended provision of the Act.

The Committee are concerned to find that there is no effective Internal Audit check of Gift-tax assessments. In paragraph 2.28 of the 50th Report (Fifth Lok Sabha) the Committee had taken note of the enlargement of the scope of Internal Audit check of Wealth-tax assessments since June, 1969. Similar action is called for in respect of Estate Duty and Gift-tax also. Further, the Committee desire that the quantum of check of various catégories of assessments should also be laid down specifically in consultation with the Statutory Audit.

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The failure of the Estate Duty Officer to apply the rate of taxation correctly at the time of reassessment bringing the escaped estate of Rs. 5 lakhs to duty in this case accounted for short levy of estate duty of Rs. 15,000. The additional demand has not yet been realised as the accountable persons have filed a writ petition. The outcome may be reported to the Committee. The Committee would also like to know the action taken in respect of the concealment.

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The Committee also understand that the accountable persons were in arrears in respect of estate duty to the extent of Rs. 2,77,087

as on 31-3-1972. The arrears should be recovered early under intimation to the Committee.

19 4.8 -do-

The plea that the Internal Audit could not scrutinise the assessment in this case due to heavy pressure of work cannot be accepted. Measures should be taken to see that the Internal Audit covers in time all the big cases.

20 4.20 -do-

The Committee regret to note the carelessness in completing the estate duty assessment in this case. Outstanding income-tax liabilities payable by the deceased for the assessment years 1968-69 and 1969-70 were not ascertained by the estate duty officer and the liabilities were allowed as claimed by the accountable persons. Further the fact that tax liability for the assessment year 1970-71 was also allowed, though the assessee died on 8-1-1969 shows that the officer had not checked the accuracy of the claims. The Committee desire that suitable action should be taken for this lapse.

21 4.21 -do-

The assessment in this case was made provisionally on 26th June, 1969 and regular assessment was made on 3rd July, 1969. However, the Committee learn that the income-tax assessments of the assessee for the years 1968-69 and 1969-70 were completed only on 19th January, 1972. It is, therefore, not clear how the regular estate duty assessment taking into account the income-tax liabilities was made earlier. Further the Committee would like to know whether the estate duty assessment was further revised on knowing the final income-tax liabilities.

22	4.27	Finance	<p>Under the Estate Duty Act exemption from duty for the self occupied house is admissible only in respect of properties belonging to the deceased and passing on his death. Although the properties did not belong to the deceased who had only life interest therein, exemption was irregularly given in two cases leading to the short-levy of tax of Rs. 80,000, as mentioned in the Audit paragraph. The Committee have been given to understand that the Law Ministry also have opined that the provision of Section 33(1) (n) does not speak of "interest in property" but property itself. Hence the inclusion of life interest for exemption under this Section does not appear to be legally valid. The Committee presume that the assessments have since been revised and additional demand recovered.</p>
23	4.28	-do-	<p>The Central Board of Direct Taxes will do well to conduct a test check in other charges to see whether similar mistakes have been committed. The position in law should also be clarified for the guidance of the Estate Duty Officers.</p>
24	4.37	-do-	<p>The Committee would like to deal with the following general questions arising out of this Audit paragraph.</p>
25	4.8	-do-	<p>The Committee are of the view that the rate of interest of 4 per cent or any higher rate yielded by the property recovered for</p>

the postponement of payment of estate duty allowed, is low. The Ministry are also in agreement with this view. Under the Income-tax Act interest is leviable at 12 per cent per annum on the outstanding dues. The Estate Duty Act requires amendment to raise the rate of interest.

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Further, the Committee find that under the Estate Duty Act interest becomes leviable only when extension of time for the payment of duty is granted. If the extension is not obtained the accountable person does not become liable for interest. Thus the provisions of law are more favourable to defaulters who do not seek extension of time. The Committee, therefore, desire that the necessary amendment should be effected to remove this anomaly.

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The two amendments suggested above by the Committee should be brought about without delay.

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At the present the rate of interest chargeable for the delayed submission of returns is only 6 per cent where as in the Income-tax Act it has since been increased to 12 per cent. Further, the interest is leviable only in cases where extension of time is applied for and granted by the Controller of Estate Duty. Earlier in this Report the Committee have referred to the need for raising the rate of interest leviable for the delayed payment of Estate Duty and removing the anomaly in the matter of liability to pay interest. Immediate action as suggested therein is necessary in the case of interest payable for the delayed submission of returns also.

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Although in one case referred to in the Audit paragraph the omission to levy interest was noticed by Internal Audit as early as 10th March 1967, no action was taken to rectify it till December, 1970. The Committee take a serious view of delay in taking rectificatory action on the basis of Internal Audit objections, particularly where, as in the case, in question the public exchequer suffered. The position of pendency of Internal Audit objections is indeed alarming in as much as 86,462 mistakes pointed out by them were outstanding without rectification as on 31st March 1972 and the approximate revenue effect is stated to be Rs. 21.19 crores. A time-limit of 3 months for the rectification of the mistake has been fixed only in July 1972. The Committee desire that the outstanding objections should be cleared within a target date not exceeding one year from now and it should be ensured that the current objections are settled strictly within a period of three months.

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The Committee would like to refer to their observations relating to the working of the Internal Audit contained in paragraphs 2.27 to 2.30 of the 51st Report (Fifth Lok Sabha). These observations equally hold good in respect of the Internal Audit of other Direct Taxes. The Committee hope that suitable action will be

taken on the lines indicated by them in regard to the Internal Audit of other Direct Taxes also.

30 4 59 -do- In the case referred to in sub-para (a) of the Audit paragraph, there has been a deplorable failure to correlate the Estate Duty assessment records with those of the Wealth-tax. Only after the Committee raised the point, some instructions have been issued in November, 1972 for coordinated handling of assessments relating to various direct taxes. Some further improvements are also under consideration. The Committee wish that a fool-proof procedure should be evolved without delay to safeguard the interest of revenue. Suitable instructions should also be laid down in this regard for the guidance of the Internal Audit.

31 4 60 -do- The Committee find that the Internal Audit Party failed to check the assessments in one case and having checked failed to detect the mistake in another. The Committee have elsewhere in this Report referred to the inadequacy of the arrangements for the Internal Audit of the Estate Duty assessments. They trust that the Internal Audit will be made effective in future.

32 4 61 -do- The Committee would like the Ministry/Audit to ensure the rectification of the assessments and recovery of additional demands in these cases.

33 4 66 -do- This is yet another case of incorrect assessment arising out of a mistake in the Estate Duty calculations that went undetected. The Committee have earlier in this Report stressed the need for counter-

check of tax calculations. Further they would like to know why the mistake in this case was not detected by the Internal Audit Party.

The Committee would await a report regarding the reasons for the non-recovery of the net estate duty payable in this case.

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34 4.67

This is a case of over-assessment at the time of revision while giving effect to an Appellate decision. The Committee have been informed that the Internal Audit Party could not look into the assessment due to considerable rush of work. According to the existing instructions the Internal Audit of Estate Duty assessments has to be done by the Deputy Controller of Estate Duty through his staff and the party thus constituted comprises only one person who has to check the assessments of the entire zone. The Committee desire that the adequacy of this arrangement should be carefully examined and suitable measures taken so that the plea of rush of work may not have to be advanced in future.

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The arrears of sur-tax demands outstanding on 31st March, 1971 aggregated Rs. 6.51 crores in 507 cases of which only a sum of Rs. 12.5 lakhs is estimated to be irrecoverable. As some of the arrears pertain to the period as early as 1964-65, the Committee desire that a target date should be fixed for the recovery and progress closely watched.

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The Committee have reasons to believe that the arrears have not been computed properly. The arrears outstanding as on 31st March 1969 out of the demands raised in 1964-65 and 1965-66 were reported earlier as Rs. 4.1 lakhs and Rs. 6.81 lakhs respectively. However, the figures as on 31st March 1971 now given are Rs. 6.87 lakhs and Rs. 9.64 lakhs respectively for the same years 1964-65 and 1965-66. Thus the arrears in respect of these years have increased instead of decreasing. This discrepancy should be reconciled early and the correct position of the arrears intimated to the Committee.

The Committee are concerned to note that 69 super-profit tax assessments and 2610 sur-tax assessments involving tax of about Rs. 19.11 crores were pending as on 31st March, 1971. All the yearly collections of superprofit tax|sur-tax ranged between Rs. 10.92 crores and Rs. 13.43 crores, the arrears on assessment involving over Rs. 19 crores cannot be taken lightly. Admittedly the Income-tax Officers have been concentrating more on the income-tax cases and have tended to give super-profit tax and sur-tax assessments a lower priority which should not be encouraged. These cases should be taken up along with the connected company assessments of Income tax. The Committee learn that the Central Board of Direct Taxes have issued instructions requiring all the pending super-profit tax assessments and sur-tax assessment upto 1968-69 to be completed by 31st March 1973. If the progress is not found encouraging, the Committee would suggest that the desirability of creating a special cell for the purpose of finalisation of these long pending cases should be considered.

The Committee note that the number of cases of concealment in

which prosecution was launched was 1 in 1968-69 and 4 in 1969-70. There was no such case during the year 1970-71. According to the Ministry 'deemed concealment' can also be taken into account for the purpose of imposing penalty under the Wealth Tax Act whereas only cases of actual concealment can be considered for purposes of prosecution. The Committee trust that all the 574 cases of concealment of wealth that came to light during 1970-71 would be carefully reviewed with a view to launching prosecution in appropriate cases. In this connection they would like to refer to para 5.10 of the 51st Report (Fifth Lok Sabha) wherein the need for launching prosecution as deterrent to tax evasion was stressed.

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Although under the law in force from 1st April, 1969, the minimum penalty leviable is equivalent to the wealth concealed the penalty levied during 1970-71 for the concealment of wealth of Rs. 808 lakhs was only Rs. 45.78 lakhs. The Ministry's explanation for the variation between the wealth concealed and the quantum of penalty as due to the lower rate of penalty for the period prior to 1st April, 1969 does not appear to be convincing. The Committee would, therefore, suggest that a competent legal opinion may be taken on the question whether the crucial date for determining the quantum of penalty is the date of filing of the return or the date of passing the assessment order. This suggestion had already been made in para 5.12 of the 51st Report (Fifth Lok Sabha). The Committee would await the legal opinion and the action taken in pursuance thereof.

The Committee examined certain paragraphs included in Chapter V of the Report of the Comptroller and Auditor General of India for the year 1970-71, Union Government (Civil) (Revenue Receipts) relating to Other Direct Taxes on 26th October, 1972. In the course of the evidence it became clear that the official witnesses were not prepared fully. They were unable to reply satisfactorily to the questions put by the Committee relating to points of even factual nature arising out of the Audit paragraphs. The then Finance Secretary himself stated: "We are not able to handle adequately the objections in the Committee as far as this Board is concerned." Considering the unpreparedness of the witnesses the Committee had to adjourn the sitting and cancel the sitting to be held in the forenoon of 27th October, 1972 in order to give further time to the witnesses to come fully prepared for examination of certain paragraphs included in Chapter IV relating to Income-tax. Even on resumption of examination regrettably there was no improvement in the preparedness of the witnesses.

In some cases the Committee found that the draft Audit paragraphs sent by the C&AG to the Ministry were not replied to in time before the finalisation of his report, with the result that even the factual position brought out in the paragraphs were contested at the time of Committee's examination. In some cases the files containing the relevant information were stated to be not available with the witnesses.

The position brought out in the foregoing paragraphs discloses an attitude towards the work of this Committee, which can at best be

described as unhelpful. The Committee can discharge their duty satisfactorily only if they receive the fullest co-operation from the Ministry. This cooperation they can give by giving importance to Audit objections in the first instance, and then by coming fully prepared to satisfy whatever relevant questions the Members of this Committee may wish to put. It is upto the Ministry to collect all relevant information in regard to each Audit objection and they should be able to answer all reasonable questions that the Members may wish to put. The Committee are confident that appropriate instructions will be issued at the highest level requiring officers who appear before the Committee, to come fully prepared.

44 8.18 All Ministeries Departments

Though their observations relating to unpreparedness have been made in the immediate context of the Direct Taxes Report, the Committee are constrained to note that such unpreparedness has been almost universal, and, therefore, it is in their view necessary to issue instructions generally to all the Ministries.