

**THIRTY-FOURTH REPORT**  
**PUBLIC ACCOUNTS COMMITTEE**  
**(1980-81)**

**(SEVENTH LOK SABHA)**

**ARREARS OF ASSESSMENTS**

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

[Paragraph 7 of the Report of the Comptroller and Auditor General of India for the year 1978—79, Union Government (Civil), Revenue Receipts, Volume II, Direct Taxes, relating to Arrears of Assessments]



सत्यमेव जयते

*Presented in Lok Sabha on.....*

*Laid in Rajya Sabha on.....*

**LOK SABHA SECRETARIAT**  
**NEW DELHI**

*March, 1981/Phalgun, 1902 (Saka)*

*Price : Rs. 4.30.*

CORRIGENDA TO THIRTY-FOURTH REPORT OF THE PUBLIC ACCOUNTS COMMITTEE (1980-81) (SEVENTH LOK SABHA) ON ARREARS OF ASSESSMENTS.

...

Para	Para	Line	For	Read
(i)		26	<u>Add</u> '23.10.1980 (AN), 24.10.1980 (AN) before '17.3.1981 (AN)'	
(v)	3	1	relays	delays
		7	aberrations	aberrations
(vi)	7	3	Comptroller and Auditor General of India.	extended by them in giving information to the Committee.
9	1.20	1	increasing	increasing
	1.21	12	returns	returns
10	1.23	11	of the part	on the part
12	1.25	5	relevance	revenue
14	1.26	foot-note	fact	fact
16	1.32	2	<u>Add</u> 'of' after 'dependency'	
17	1.33	7	or	on
	1.34	10	<u>Add</u> 'assessments' after 'wealth-Tax'	
20	2.4	12	stopped	stepped
21	2.7	2	assessee	assesseees
25	3.7	1	Questionnaires	Questionnaire
26	3.12	1	tary	tardy
27	3.17	17	arrears	areas
		23	creasted	created
28		26	scrutiny	scrutiny
	3.18	2	requirement	requirement
29	3.19	11	<u>Add</u> 'for' after 'per cent'	
33	4.8	1	57th	51st
37	5.8	25	in-depth	in-depth
		3	be a	be of
39	6.1	14	impossible	impossible
43		7	suggested	suggest
	6.10	9	there	their
		10	283(A)	273(A)
44	7.1	8	admissible	admissible
			shed	step
45	7.3	5	therefore	therefor
	7.4	2	having	have

<u>Page</u>	<u>Para</u>	<u>Line</u>	<u>For</u>	<u>Read</u>
48	7.12	10	equality	quality
		12	the	tax
	7.13	11	filed'	filled
		27	appropriatory	a propriatory
49		30	IC	IAC
51	7.18	3-4	rationable	rationale
56	8.13	5	<u>add</u> 'are' before	'rather'
		11	serves	servers
	8.15	5	qualified	quantified
57	8.16	8	same	some
			workng	working
58	8.19	9	<u>Add</u> after manpower	'require-
			ment on the basis of plan	targets for disposing of"
60		3	Appendix III	Appendix II
	8.21	2	assignee	assigned
62	8.27	1 from	efficiency	efficiency
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63	9.3	4-5	compets	compete
67	10.5	2	to	too
83	1.34	2	obserations	aberrations
			<u>add</u> 'assessments'	
		<u>last</u>	<u>add</u> 'assessments' after	
		<u>line</u>	'wealth-tax'	
84	1.36	14	threadbore	threadbare
88	4.8	1	57th	51st
		3	recalld	recalled
98		3	<u>delete</u> 'the' after	'frequent'
		9	to the	to be

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### PART II\*

Minutes of the sittings of the Public Accounts Committee (1980-81) held on  
17-3-1981 (AN)

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

PUBLIC ACCOUNTS COMMITTEE  
(1980-81)

Shri Chandrajit Yadav—*Chairman*

MEMBERS

*Lok Sabha*

2. Shri Satish Agarwal
3. Shri Subhash Chandra Bose Alluri
4. Shri Tridib Chaudhuri
5. Shri K. P. Singh Deo
6. Shri V. N. Gadgil
7. Shri Ashok Gehlot.
8. Shri Sunil Maitra
9. Shri Gargi Shankar Mishra
10. Shri M. V. Chandrashekara Murthy
11. Shri Ahmed Mohammed Patel
12. Shri Hari Krishna Shastri
13. Shri Sa.ish Prasad Singh
14. Shri Jagdish Tytler
15. Shri K. P. Unnikrishnan

*Rajya Sabha*

16. Smt. Purabi Mukhopadhyay
17. Shri N. K. P. Salve
18. Shri Tirath Ram Amla
19. Smt. Maimoona Sultan
20. Shri Patitpaban Pradhan
21. Prof. Rasheeduddin Khan
22. Shri Indradeep Sinha

SECRETARIAT

Shri H. G. Paranjpe—*Joint Secretary.*

2. Shri D. C. Pande—*Chief Financial Committee Officer.*
3. Shri K. C. Rastogi—*Senior Financial Committee Officer.*

## INTRODUCTION

I, the Chairman of the Public Accounts Committee, as authorised by the Committee, do present on their behalf this Thirty-fourth Report of the Public Accounts Committee (Seventh Lok Sabha) on Paragraph 7 of the Report of the Comptroller and Auditor General of India for the year 1978-79, Union Government (Civil), Revenue Receipts, Volume II, Direct Taxes, relating to Arrears of Assessments.

2. The Report of the Comptroller and Auditor General of India for the year 1978-79, Union Government (Civil) Revenue Receipts, Volume II, Direct Taxes, was laid on the Table of the House on 1 July, 1980.

3. The problem of mounting pendency of assessments and relays in finalisation of cases has been engaging the attention of the Committee ever since 1969-70. The pendency of assessments was as high as 19.26 lakhs at the end of the year 1978-79. The Committee have found that the concept of Management by Objectives sought to be implemented through the yearly Action Plans has failed to enthuse the Department; on the other hand serious aberrations have developed during the course of their implementation. In this Report, the Committee have dealt with various facets of the problem and have suggested remedial measures for bringing down the pendency and reduction in the arrears of tax demands.

The Committee have emphasised the need for strengthening the Special Cell so that it becomes an effective instrument for overseeing the activities of monopoly concerns, for directing, coordinating and expediting their assessments as well as for studying the methods employed by them to avoid/evade their tax liability.

4. The Public Accounts Committee (1980-81) examined the paragraph relating to Arrears of Assessments at their sittings held on 23 and 24 October, 1980. The Committee considered and finalised this Report at their sitting held on 17 March 1981. The Minutes of sittings of the Committee form Part II\* of the Report.

5. A statement containing conclusions and recommendations of the Committee is appended to this Report (Appendix III). For facility of reference these have been printed in thick type in the body of the Report.

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

6. The Committee place on record their appreciation of the assistance rendered to them in the examination of this paragraph by the Office of the Comptroller and Auditor General of India.

7. The Committee would also like to express their thanks to the officers of the Ministry of Finance (Department of Revenue) for the cooperation Comptroller and Auditor General of India.

CHANDRAJIT YADAV,  
*Chairman,*  
*Public Accounts Committee.*

NEW DELHI;

*March* 19, 1981

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*Phalgun*a 28, 1902 (S).

## ARREARS OF ASSESSMENTS

### *Audit Paragraph:*

#### (a) *\*Income-tax including Corporation tax*

1.1. (i) The number of assessment cases to be finalised as on 31st March, 1979 has increased as compared to that at the close of the previous year. The number of assessments pending as on 31st March, 1979 was 19.26 lakhs as compared to 15.38 lakhs as on 31st March, 1978 and 17.42 lakhs as on 31st March, 1977. Of the 19.26 lakhs of pending cases as many as 10.52 lakh cases related to small income and summary assessments.

1.2. (ii) The number of assessments completed out of arrear assessments and out of current assessments during the past five years is given below:

Financial year	Number of assessments completed					
	Number of assessments for disposal	Out of current	Out of arrears	Total	Percentage	Number of assessments pending at the end of the year
1974-75	55,18,327	24,23,575	14,17,271	38,40,846	69.6	16,77,481
1975-76	57,34,327	25,08,108	14,99,536	40,07,644	69.9	17,26,683
1976-77	56,90,717	24,88,743	14,60,136	39,48,879	69.4	17,41,838
1977-78	55,81,355	25,72,678	14,71,135	40,43,813	72.5	15,37,542
1978-79	52,35,891	21,07,544	12,02,783	33,10,327*	63.2	19,25,564

\*Information supplied by Ministry of Finance.

\*\*Revised figure furnished by the Ministry of Finance is 33,12,099.



1.3. (iii) Category-wise break-up of the total number of assessments completed during the years 1977-78 and 1978-79 is as under:—

	1977-78	1978-79
(a) Business cases having income over Rs. 25,000 . . . . .	2,75,248	2,33,472
(b) Business cases having income over Rs. 15,000 but not exceeding Rs. 25,000 . . . . .	1,50,733	1,37,511
(c) Business cases having income over Rs. 7,500 but not exceeding over Rs. 15,000 . . . . .	2,19,303	2,01,352
(d) All other cases (including refund cases) except those mentioned in categories (c) and (f) . . . . .	3,49,781	2,79,929
(e) Small income scheme cases, Government salary and non-Government salary cases below Rs. 18,000 . . . . .	60,731	45,888
(f) Summary assessments . . . . .	29,87,927	24,12,165
<b>TOTAL :</b>	<b>40,43,813</b>	<b>33,10,327</b>

1.4. (iv) Status-wise break-up of income-tax assessments completed during the years 1977-78 and 1978-79 is as under:

	1977-78	1978-79
(i) Individuals . . . . .	31,85,228	25,49,938
(ii) Hindu Undivided Families . . . . .	1,94,186	1,77,732
(iii) Firms . . . . .	5,84,815	5,08,196
(iv) Companies . . . . .	41,533	35,982
(v) Association of persons . . . . .	38,051	38,479
<b>TOTAL :</b>	<b>40,43,813</b>	<b>33,10,327</b>

1.5. (v) The position of assessments completed under Summary Assessment Scheme is as under:—

1. Total number of assessments completed under Section 143(1) of the Act . . . . .	54,12,165
2. Assessments made under Section 143(2) (a) of the Act, (where an assessment having been made under Section 143(1) and assessee makes within one month an application objecting to the assessment . . . . .	1,804
3. Assessments made under Section 143(2) (b) that is where the Income-tax Officer considers it necessary to verify the correctness of the return by requiring the presence of the assessee . . . . .	1,107

1.6. (vi) The position of pendency of income-tax assessments for the last three years is as under:

	As on 31st March 1977	As on 31st March 1978	As on 31st March 1979
1974-75 and earlier years	91,770	37,426	24,828
1975-76 . . . . .	4,07,231	37,797	19,233
1976-77 . . . . .	12,42,837	3,84,814	61,185
1977-78 . . . . .	..	10,77,505	5,17,533
1978-79 . . . . .			13,02,685
<b>TOTAL :</b>	<b>17,41,838</b>	<b>15,37,542</b>	<b>19,25,464</b>

1.7 (vii) Category-wise break-up of pending income-tax assessments as on 31st March, 1978 and 31st March, 1979 is as under:

	As on 31st March 1978	As on 31st March 1979
(a) Business cases having income over Rs. 25,000 . . . . .	1,64,340	1,86,943
(b) Business cases having income over Rs. 15,000 but not exceeding Rs. 25,000 . . . . .	1,59,232	1,72,335
(c) Business cases having income over Rs. 7,500 but not exceeding Rs. 15,000 . . . . .	2,07,908	2,17,097
(d) All other cases (including refund cases) except those mentioned in categories (e) and (f) below . . . . .	2,93,088	2,97,258
(e) Small income scheme cases, Government salary cases and non-Government salary cases below Rs. 18,000 . . . . .	50,567	35,900
(f) Summary assessments . . . . .	6,62,407	10,16,031
<b>TOTAL :</b>	<b>15,37,542</b>	<b>19,25,564</b>

1.8. (viii) States-wise and year-wise break-up of pendency of income-tax assessments as on 31st March, 1979 is as under:—

Status	1974-75 and earlier years	1975- 76	1976-77	1977-78	1978-79	Total
Individuals .	15,766	13,285	43,630	3,44,702	9,56,799	13,74,182
Hindu undivided families .	1,813	1,413	3,841	33,548	79,319	1,19,934
Companies	2,687	938	2,551	12,573	21,814	40,563
Firms . . .	3,761	3,061	9,802	1,11,812	2,23,158	3,51,591
Associations of persons . . . .	801	536	1,361	14,898	21,595	39,191
<b>TOTAL :</b>	<b>24,828</b>	<b>19,233</b>	<b>61,185</b>	<b>5,17,533</b>	<b>13,02,685</b>	<b>19,25,464</b>

(ix) Re-opened assessments and set aside assessments which are pending.

1.9. (1) Year-wise details of assessments cancelled under Section 146 of the Income-tax Act, 1961 (or under the corresponding provisions of the old Act) and which are pending finalisation on 31st March, 1979 are as follows:

Assessment year	Number of assessments
1970-71 and earlier years . . . .	2,164
1971-72 . . . . .	289
1972-73 . . . . .	399
1973-74 . . . . .	661
1974-75 . . . . .	1,255
1975-76 . . . . .	2,055
1976-77 . . . . .	2,509
1977-78 . . . . .	1,248
1978-79 . . . . .	1,452
<b>TOTAL :</b>	<b>12,032</b>

1.10. (2) Year-wise details of assessments cancelled under Section 263 of the Income-tax Act, 1961 (or under the corresponding provisions of the old Act) which are pending finalisation on 31st March, 1979 are as follows:

Assessment year	Number of assessments
1970-71 and earlier years	349
1971-72	33
1972-73	56
1973-74	87
1974-75	92
1975-76	76
1976-77	76
1977-78	88
1978-79	81
<b>TOTAL :</b>	<b>938</b>

1.11. (3) Year-wise details of assessments set aside by the Appellate Assistant Commissioners under Section 251 of the Income-tax Act, 1961 (or under the corresponding provision of the old Act) or by the Appellate Tribunals under Section 254 of the Income-tax Act, 1961 (or under the corresponding provisions of the old Act), where fresh assessments have not been completed as on 31st March, 1979:

Assessment year	Set aside by Appellate Assistant Commissioners		Set aside by Appellate Tribunals	
	Number of cases	Assessment year	Number of cases	Assessment year
1970-71 and earlier years	3039	1970-71 and earlier years	534	
1971-72	379	1971-72	65	
1972-73	517	1972-73	119	
1973-74	723	1973-74	133	
1974-75	1040	1974-75	140	
1975-76	1038	1975-76	116	
1976-77	861	1976-77	117	
1977-78	627	1977-78	124	
1978-79	779	1978-79	104	
<b>TOTAL :</b>	<b>9,003</b>		<b>1,472</b>	

1.12. (b) Pendency of Super Profits Tax and Surtax assessments  
The position of pendency as on 31st March, 1979 is given below:

(Amount in thousands of rupees)

	Super profits tax	Surtax
(i) Total number of cases for disposal during 1978-79 .	12	5,204
(ii) Number of cases disposed of provisionally .	1	760
(iii) Number of cases disposed of finally . . .	1	988
(iv) Amount of demand raised on provisional assessments		41,32,14.9
(v) Amount of demand collected on provisional assessments		38,72,97.1
(vi) Amount of demand raised on final assessments .	28,21	25,94,08.4
(vii) Amount of demand collected on final assessments	29,76	25,07,38.1
(viii) Number of cases pending as on 31st March, 1979 .	11	4,216
(ix) Approximate amount of tax involved in (viii)	194	34,80,21.7

1.13. Year-wise details of assessments, under Companies (Profits) Surtax Act, 1964, pending as on 31st March, 1979 are as under:—

	Number of assessments
1969-70 and earlier years . . . . .	48
1970-71 . . . . .	20
1971-72 . . . . .	35
1972-73 . . . . .	69
1973-74 . . . . .	107
1974-75 . . . . .	226
1975-76 . . . . .	441
1976-77 . . . . .	831
1977-78 . . . . .	1176
1978-79 . . . . .	1238
<b>TOTAL :</b>	<b>4191</b>

1.14. (c) Year-wise details of Wealth-tax, Gift-tax and Estate Duty assessments pending on 31st March, 1979 are given below. The approximate amount of tax/duty involved therein has not been furnished by the Ministry of Finance:

	Number of assessments pending.		
	Wealth-tax	Gift-tax	Estate duty
1974-75 and earlier years . . . . .	9,942	2,581	4,509
1975-76 . . . . .	35,936	2,520	3,220
1976-77 . . . . .	46,147	2,966	4,932
1977-78 . . . . .	63,478	3,896	6,117
1978-79 . . . . .	1,76,058	9,844	9,024
<b>TOTAL :</b>	<b>3,31,561</b>	<b>21,807</b>	<b>27,802</b>

(d) *Incentive Scheme for outstanding performance in assessment work*

1.15. As a result of Public Accounts Committee's recommendation to improve the performance of assessment work and in order to encourage the Income-tax Officers to give their best, an Incentive Scheme for quality work in assessment has been introduced from 1st April, 1976. The Scheme contemplates 20 cash awards 8 of Rs. 2,000 each and 12 of Rs. 1,000 each to be given annually to the Assessing Officers whose assessments are rated to be the best of the year.

1.16. The information regarding the number of beneficiaries and the amount disbursed in 'nil' for the years 1977-78 and 1978-79.

(Paragraph 7 of the Report of the Comptroller and Auditor General of India for the year 1978-79, Union Government (Civil), Revenue Receipts, Vol. II—Direct Taxes (pp. 15—22).

## REPORT

### ARREARS OF ASSESSMENTS

#### A. Action Plans

1.17. Under Section 153 (1) of the Income Tax Act, 1961, the assessments are to be completed by the Department within 2 years from the end of the assessment year in which the income was first assessable

or the expiry of one year from the date of filing of the returns or a revised return, whichever is latest.

1.18. The total number of assessments completed during the year 1978-79 declined to 33.12 lakhs as compared to 40.44 lakhs in 1977-78. There was a corresponding increase in pendency as on 31 March, 1979, of about 4 lakh assessments from 15.38 lakhs to 19.26 lakhs. In other words, the percentage of assessments completed declined sharply from 72.5 in 1977-78 to 63.2 in 1978-79. The table in sub-para (vi) of para 7 of the Audit Report shows that as many as 24,828 income tax assessment year 1974-75 and earlier years were pending as on 31-3-79. Apart from this, as many as 17,032 wealth tax/gift tax/estate duty assessments pertaining to the year 1974-75 and earlier years were also pending on 31-3-79.

1.19. The Public Accounts Committee have, over the years, expressed concern at the large number of pending assessments. The need for expeditious clearance of pending assessments particularly in big income cases has been pointed out by the Committee repeatedly in the past. In para 1.43 of the 117th Report, the Committee (1969-70) while taking note of the Ministry's assurance that the Board expected to reduce the pendency to 10 lakhs by the end of 1969-70 and to "an insignificant figure by 1972, had expressed the hope that vigorous efforts would be made by the Board to fulfil the undertaking given by it. The Ministry of Finance stated in reply (Jan. 71) that the Board had issued suitable instructions to the Commissioners of Income Tax and it expected that pendency as on 31 March, 1972 would be further reduced to about 2 to 3 months' work load.

1.20. Explaining the position with regard to disposal of pending assessments mentioned in the audit paragraph, the Ministry of Finance have stated:

"The Income-tax Department has been having a yearly Action Plan from 1974-75. The Action Plan is formulated after going through the following exercises:

- (i) Take stock of the pending work-load as well as the current addition during the year.
- (ii) Take stock of the available resources particularly from the man-power angle.
- (iii) Determine the priorities to be set for the Department.
- (iv) Set down targets in important areas.

Over the years the Department has attached increasing importance to the task of reduction of tax arrears. Reduction of arrear and current demand had the first priority in the Action Plan for 1978-79. Consequently, disposal of assessments could not be given the first priority."

1.21. Indicating the reasons for the sharp decline in the number of completed assessments during 1978-79, the Ministry of Finance (Department of Revenue) have stated:

"There is a shortfall of about 7 lakhs income-tax assessments in the year 1978-79 as compared to the disposals in the year 1977-78. Included in the figure of the total number of assessments completed are assessments which are termed as ineffective assessments. An ineffective assessment is an assessment made when the total income is below the taxable limit and is referred to as an NA and filed case. In the year 1977-78 a conscious decision was taken to segregate such ineffective returns and not to complete assessments in such cases in that year. However, the instructions to the field authorities were that permissible ineffective assessments could be completed. Such returns would be those which would get barred by limitation, and returns involving refunds. The number of NA and filed cases disposed of in the years 1975-76, 1976-77, 1977-78 and 1978-79 is given below.

Year	Disposal of NA and Filed cases
1975-76	573532
1976-77	504212
1977-78	448615
1978-79	284485

Figures given in the table hereinabove would indicate that the disposal of NA and filed cases has been constantly on the decline with a noticeable drop in the year 1978-79. When compared to the figures of 1977-78, the number of ineffective and filed cases has been reduced in 1978-79 by as much as 1,64,000."

1.22. The Committee desired to know, what according to the Ministry, would be the reasonable level of pendency at the end of a year, whether



any target date had been fixed to achieve that level and if so, what steps were being taken to clear the arrears. In a note, it has been stated:

“The Ministry are of the tentative view that the pendency under summary assessment at the end of the year should be 10 per cent of the workload of summary assessments and in regard to scrutiny assessments, the pendency at the end of the year should be of the order of 25 per cent. Detailed exercises to achieve this and make suitable projections of cases and man-power are under way but the results of tentative exercise carried out show that the Income-tax Department would be able to achieve 10 per cent pendency in the case of summary assessments by 1983-84 and the 25 per cent pendency in the case of all scrutiny cases by 1985-86. An important and inescapable corollary to this achievement would be that we would require 500 additional ITOs spread over the period upto 1983-84 with supplementary staff, to achieve this target.”

1.23. During evidence, the Committee desired to know why the assurances held out to them several years earlier had been not fulfilled and why the pendency had on the other hand been going up from year to year. The Finance Secretary explained the position as follows:

“.....I myself have gone into this question as to why there had been sharp fall in the disposal of assessments. From 1974-75 onwards this department has been operating on the basis of ‘action plan’ and that the Department has tried to do is to set before itself at the commencement of every financial year certain targets for its performance and identify certain areas as warranting special attention of the part of the departmental officers. These are discussed within the department by the Board collectively and also discussed with the Commissioner of Income Tax. On the basis of such discussion, the department issues ‘action plan’ and the Board evaluates its own performance with regard to this ‘action plan’ .....

What happened was in the year 1978-79 ‘action plan’ was drawn up and sent to various field formations on 4th May, 1978.... This ‘action plan’ asked the Income Tax Officers to lay aside the so-called ineffective cases and concentrate on effective cases and wealth tax and penalty cases. From the figures furnished, I find that as a result of this one directive as many as 1.64 lakhs of ineffective cases were not attended to. Department also concentrated on the disposal of wealth tax cases. The increase in 1978-79 in the disposal

of wealth tax assessment cases was 1.57 lakhs. Sir, it is very difficult to establish co-relationship between simple income-tax case and wealth tax case. I would only say assuming that one wealth tax assessment is equal to two salary cases this extra disposal in wealth tax assessment will alone account for 3 lakhs of additional disposals. The 'action plan' also laid stress on disposal of penalty cases. In 1978-79, the number of penalty orders passed for concealment of income was as high as 28,000 as against 8,000 in 1977-78.

Then, Sir, the problem of mounting arrears of income tax had been causing concern both to the department as well as Parliament. Therefore, in this year emphasis was laid on reduction of arrears and the figures will bear witness to the fact that a significant dent was made on this problem of arrears of income-tax in 1978-79. If you make allowance for all these factors this deliberate decision to lay aside ineffective cases, accelerated disposal of wealth tax assessment cases, greater attention to penalty cases with all the time-consuming procedures involved and the special stress laid on a substantial reduction of arrears. I would submit that the department's performance in 1978-79 was not on the whole bad.

When I say this, I do not mean to say that we are fully satisfied with everything and that the Department cannot do better. It is not so. There is always scope for improvement. This is my submission. The question of disposal of assessments is very important. We have to see that the wealth-tax assessment cases do not get time-barred. The Department had to take special steps to dispose them of. In that year Rs. 200 crores addition was made to the demand under this item—wealth tax. But of course we don't know how much of it will stand actual judicial scrutiny. But we do hope at least some part of the demand which we have raised will stick. So, my only submission is that one may have to make some allowance for these factors while considering this question of disposal of assessments."

1.24. The Member of the Central Board of Direct Taxes, who at the relevant point of time was Director, O&M and was responsible for drawing up the detailed 'action plan' amplified:

"Since 1974-75, we have based the working of our department on the concept of management by objectives-MBO as it is called, under which we lay down all-India objectives. We identify the key result areas on which the department should con-

centrate in that year. From 1974-75 to 1977-78, we had placed our emphasis only on the disposal of income-tax assessments. We found—this is borne out by the report itself—that whereas disposal had remained almost in the neighbourhood of 40 lakhs, varying between 38 to 40 lakhs, the number of pending cases at the end of the year was not going down. We also found, on a review made in respect of the four action plans which had preceded the 1978-79 action plan that most of the items relating to pre-assessment work and post-assessment work had remained neglected. Penalty cases were growing from year to year. Audit objections were not being attended to. Taxes paid were not being credited and so on. In order to save some man-hours and within the constraints within which we were working, especially constraint about man-power resources available to the department, and other legal constraints like introducing a time bar in wealth tax assessments which made it obligatory on the department to complete some assessments before 31-3-1979, we thought we could cut out some of the areas from our action plan, which did not need our immediate attention.”

**He added:**

“.....During 1978-79, our ITO's were asked to do effective cases only.....there was no such ban in 1977-78, with the result that out of those 7 lakh assessments, more than 1.5 lakh cases fell under that category, we did not want our employees to be deployed for doing work which was of an infructuous nature, which means where the income disclosed was below the taxable limit.”

1.25. To a pointed question why man-power was being wasted on ineffective category cases which had no relevance or validity, the witness replied:

“If we look at it from that point of view, ineffective cases which give us no relevance, should be removed from our registers. There is no denying it. But it sometimes happens that the assessee files their references in order to keep their records straight, even though in respect of that assessment year, their income is just below the taxable limit. So we have to keep them on the trial register for some years. If for a number of years, the income returned is less than the taxable limit, then we can certainly strike off their names.”

**The Finance Secretary added:**

“Following the assurance which you got from my predecessor in 1970, I assure you that we will go into this question and see that a dent is made in the overall pendency. All I am pleading is, in 1978-79, the Department said, “these are our manpower resources; these are limited. Therefore, we will concentrate on these cases. . . . There is also the problem of reduction of arrears. If you make allowance for this, I would say, the drop in absolute terms of the disposal of assessments, though looks large, is reasonably explained.

. . . You wanted me to give an assurance on behalf of the Department. I have to respond to that in a constructive spirit. While concentrating on important cases, we should also bring down overall pendency. An assessee can rest in peace only when he is told by the Department, “You forget it, that case is settled.”. . . . Increase in disposal of cases is also important. This is a very legitimate task which we have set before us. It is not enough if we concentrate only on clearing arrears in regard to wealth-tax cases, in regard to penalty case, and the like. One or two years is all right. We can ignore it. But at some stage, we should also try to bring down the overall pendency.”

1.26. Subsequently, the Department furnished at the Committee's instance, a copy of the note which was prepared for discussion by the Board for finalising the Action Plan for 1978-79.

This note took stock of the position during the last four years with a view to assess the progress achieved in the various fields and if need be, to change the priorities, re-set the targets, etc. The note *inter-alia* states:

“Indeed, a study of the various spheres of work does not reveal a very bright picture; in any case, some corrective action seems to be called for immediately, Whether it be the arrears of assessment or arrears of tax demands, the over-all picture

is not too encouraging. The following table reveals the disposal of income-tax cases:

(In lakhs)

Financial Year	Workload for the year		Disposal during the year		Pending at the end of the year	
	I.T.	W.T.	I.T.	W.T.	I.T.	W.T.
1	2	3	4	5	6	7
1974-75	55.01	4.88	38.51	2.53	16.50	2.35
1975-76	57.53	5.08	40.25	2.64	17.28	2.44
1976-77	56.79	5.52	39.54	2.76	17.25	2.76
	55.71	6.00	40.93	3.06	14.75**	2.94

\*Projected on the basis of disposal upto December, 1977.

\*\* The slightly lower pendency expected to be carried forward on 1-4-1978 is due to the fact that under Board's revised instructions pendency of current cases was restricted only to cases where notices u/s 139 (2) are issued or where returns actually received.

As can be seen, the quantum of work expected to be carried forward on 1-4-1978 is almost the same as was four years back. This is inspite of the fact that there has been increases in man-power during the period as under:

Increase in Manpower during this period:

S.No.	Date	No. of ITOS added
1.	4-6-1975	223
2.	30-11-1977	150

1.27. Setting out the objectives of the Action Plan for the year 1978-79 the Chairman, C.B.D.T. in his D.O. letter dated 4th May, 1978 addressed to all the Commissioners of Income Tax, stated:

“As you are aware, the budget estimates for 1978-79 have been increased to Rs. 2,585 crores as against Rs. 2,300 crores for 1977-78. This calls for according the highest priority to the maximisation of collections. The collection effort is, therefore, to be mounted with sincerity and vigour so as to also achieve a major break-through in the problem of tax arrears. The extreme urgency of the matter is also evident from the com-

ments in the Parliament and the Public Accounts Committee on this subject. Hence, a complete revaluation of our priorities has been made by us this year. . . . .

. . . On the assessment front a new dimension is being added to our endeavour. In this year an attempt will be made to dispose of only "effective" assessments. . . . since the disposal in this year, unlike last year, would be confined only to "effective" cases, the disposal of assessments in terms of numbers has been purposely kept low. The man-power saved from attending the infructuous work will be more fruitfully employed in the following areas of work:

- (a) Combating the menace of increasing tax arrears;
- (b) Improving the quality of assessments;
- (c) Increasing the disposal of assessments under Wealth Tax Act where some assessments will be getting time-barred in 1978-79."

#### *Monitoring Machinery*

1.28. The Committee desired to know whether there was any machinery in the Board to monitor the actual performance against the prescribed standards from time to time during the course of the year. The Ministry have stated:

"In implementing the Action Plan. . . the All India targets for different key result areas are fixed and communicated to the Commissioners of Income-tax who are to formulate their own action plans having regard to the all India objectives, the man-power available with them, the work-load involved and other constraints in the field. The Commissioners are to report to the Board the results achieved at the end of every quarter *vis-a-vis* the targets fixed. Their performances are then reviewed and comments are given by the Board. These are known as quarterly reviews of control statistics."

1.29. During evidence, the Chairman, C.B.D.T. stated:

"The monitoring of Action plan is done by the Chairman himself. A quarterly review of the progress of the Action Plan is sent to the Commissioners.

In the Board there is a functional distribution. In addition to that each member has a ward—a particular zone. He looks into their local problems and whenever he goes there he watches the progress of work and also looks into the general progress too."

1.30. The Action Plan (1978-79) proposals submitted in March 1978 indicated the following aberrations/drawbacks that had developed during the course of implementation of the annual Action Plans over the 4 year period ending 1977-78.

- (i) More than 1/3 of the departmental effort was being used to deal only with ineffective cases, yielding no demands;
- (ii) The number of effective cases where notices u/s 139(2) had not been issued had increased in geometrical proportion after the introduction of the Action Plan in 1974-75. "This may be with a view to suppressing the inputs of current assessments from year to year and thereby achieving the Action Plan targets of carrying forward only a certain percentage of pending assessments."
- (iii) The pendency of penalty cases under the Income Tax Act, Wealth Tax Act, Gift Tax Act as well as that of audit objections had been increasing;
- (iv) The main rationale of the summary scheme was to utilise the man power saved to make detailed investigation in all the cases left for scrutiny. This objective has not been pursued.
- (v) There was no co-ordination between income tax assessments and wealth tax and other direct taxes assessments;
- (vi) Where appeals were pending before the AAC, Income tax Tribunals, or High Courts, no briefs were being sent for giving assistance to the Department Counsels etc. etc.

1.31. The Note further points out that target setting with reference to artificially fixed work norms had proved to be counter-productive from three view-points:

- (a) As stated above, it had led to suppression of actual workload of current assessments;
- (b) It had led to fulfilment of targets by the disposal of higher percentage of infructuous assessments; and
- (c) It had also led to complete neglect of pre-assessment work as well as follow up post-assessment work.

1.32. Time and again, the Public Accounts Committee have expressed concern over the mounting pendency assessments. In paragraph 1.43 of the 117th Report, the Committee (1969-70) had taken note of the Ministry's assurance that the Board expected to reduce the pendency to 10 lakhs by the end of 1969-70 and to 'an insignificant figure' by 1972. Far from the assurance held out to the Committee having been fulfilled, the pendency

has gone up to 19.26 lakhs at the end of the year 1978-79 which itself recorded an increase of 3.88 lakh assessments over 1977-78. The first ever study undertaken by the Directorate of O&M Services in the Central Board of Direct Taxes in early 1978, to take stock of the position and assess the progress achieved during the four-year period (1974-78), "does not reveal a very bright picture. . . Whether it be the arrears of assessments or arrears of tax demands, the overall picture is not too encouraging. The quantum of work expected to be carried forward on 1-4-1978 is almost the same as was four years back. . . This is inspite of the fact that there has been increase in man-power (to the extent of 373 Income-tax Officers) during the period."

1.33. The Committee are concerned to note the submission made by the representative of the Ministry during evidence that. . . "We also found, on a review made in respect of the four action plans which had preceded the 1978-79 action plan that most of the items relating to pre-assessment work and post-assessment work had remained neglected. Penalty cases were growing from year to year. Audit objections were not being attended to. Taxes paid were not being credited and so on".

1.34. The Committee would also like to draw attention to some other serious aberrations that have developed during the course of implementation of the Action Plans namely:—(i) more than 1/3 of the departmental effort was being used only to deal with ineffective cases, yielding no demand; (ii) number of cases where notices under Section 139(2) had not been issued had increased in geometrical proportion, "may be with a view to suppressing the inputs of current assessments from year to year and thereby achieving the Action Plan targets of carrying forward only a certain percentage of pending assessments", (iii) there was no coordination between income tax and wealth tax and assessments under other direct taxes.

1.35. The above paragraphs reveal a very unhappy state of affairs in the Income Tax Department. It is obvious that the attempt to translate the concept of "Management by Objectives" through the yearly action Plans has failed to enthuse the tax collection machinery and to reorient its functioning on purposive lines.

1.36. The Committee have dealt with the various facets of the problem in detail in the subsequent sections of this Report. At this stage, they would only like to emphasise the imperative need for a thorough reorientation and streamlining of the machinery so as to make it an efficient tool for realising the objectives of the Government. Any amount of plugging the loopholes through successive amendments of the tax laws would be an exercise in futility only making the law onerous and cumbersome so long as the top functionaries of the organisation are not able to motivate properly the



field staff as well as those working in the head-quarters towards achievement of clearly defined objectives. The Committee recommend that besides official tours undertaken by the Members of the Central Board of Direct Taxes, periodical review meetings should be held with the field officers to discuss threadbare their problems and difficulties with a view to improving the administrative efficiency of the Department.

1.37. The Committee are of the view that there is a paramount need not only to tone up the management information system at all levels but also for simplification of procedures and bringing about the human touch which is so essential in any organisation which has day-to-day dealings with the public.

1.38. The problem of mounting arrears of tax assessments and delays in finalisation of cases has a human aspect to which the Department do not seem to have given adequate thought so far. So long as a case is not finalised, the honest tax payer continues to suffer from a nightmarish feeling that he is in the dock. The committee cannot therefore, emphasise too strongly the urgent need for clearing the backlog of assessment under a time bound programme and also for ensuring that fresh cases are not allowed to get piled up.

1.39. The Committee desire that the Ministry of Finance should take note of the various lacunae in the implementation of the Action Plans referred to above and effect necessary improvements without delay.

## B. Reduction of Arrear and Current Demand

2.1. The figures given in para 6 of the Audit Report reveal that gross arrears of Rs. 910.64 crores were due as on 31.3.79. The break-up is as under :

	(Rs. in crores)
Corporation Tax	168.04
Income Tax	437.61
Interest	200.42
Penalty	104.57
Total:	910.64

2.2. Of the above arrears of tax for 1968-69 and earlier years amounted to Rs. 76.97 crores.

The total demand raised during the years 1975-76 to 1978-79 was as under:

Financial Year	Total demand raised
	(Rupees in crores)
1975-76	1194.22
1976-77	1273.03
1977-78	1426.96
1978-79	1557.78

2.3. The revised objectives set for the Action Plan, 1978-79, *inter-alia* laid emphasis on combating the menace of ever increasing tax arrears. Accordingly, the following targets were fixed:

“Collect at least 55 per cent of the gross arrear demand through adjustment/collection/reduction and collect atleast 90 per cent of the gross current demand through at adjustment/collection/reduction.

or

reduce the outstanding arrears demand to be carried forward on 1.4.79 by 25 per cent of that brought forward on 1.4.78.”

2.4. During evidence, the Member C.B.D.T. explained the achievements in reduction of arrear demands with reference to targets laid down in the Action Plan (1978-79), as follows:

“In 1978-79, among other things, greater emphasis was laid on this aspect especially. This particular aspect of the work got greater emphasis. Action Plan was initiated. There have been specific targets laid down. One was to reduce the amount carried forward from arrear demands by 50 per cent. Also, to reduce arrears carried forward from current demand and to collect 85 per cent out of the current demand. With the re-formulation of the Action Plan, these targets were stopped up. We asked the Commissioners in the Commissioners Conference to increase the targets, let the reduction out of arrear demand be 55 per cent and reduction out of current demand 90 per cent. In terms of this, specific action was taken. Of course, the Commissioners have got their discretion to organise things in their own way.....”

2.5. He added:

“.....The result is significant in terms of the targets of reduction of arrears by 55 per cent. The achievement was 44.4 per cent instead of 55. Out of current demand, instead of 90 per cent they could collect 90.6 per cent. The demand outstanding as on 31.3.78 was Rs. 990 crores.....As of the end of the year 1978-79, this has been brought down to Rs. 911 crores. This has been a very significant achievement. As you know, we had not been able to make a dent on this problem. This was the year in which we reduce the arrears by Rs. 79 crores.....The second point to note is that while we reduced the total from Rs. 990 crores to Rs. 911 crores. that is about Rs. 79 crores, all of it was the reduction in tax arrears. Out of Rs. 990 crores of the preceding year, the tax in arrears was Rs. 634 crores. This was brought to Rs. 555 crores, notwithstanding the fact that, during the year 1978-79, we raised a current demand of Rs. 205 crores more than the preceding year.”

2.6. He further added:

“.....Now we have done some statistical exercise. At the end of March 1973, the demand outstanding was Rs. 790 crores. We collected Rs. 1183 crores. The percentage to the total amount collected during 1972-73 was as high as 66.5. This percentage went down to 61 next year and it remained around 61. In the year 1975-76, it went down to 48 per cent. In 1976-77 it was 40 per cent. It registered a slight increase of 44 per cent in 1977-78. It went down to 37.5 per cent in 1978-79 and it is about 37 per cent in 1979-80. It is our constant endeavour to bring down this because we are aware of the fact that every time we go to the Parliament for additional dose of taxation, we are reminded of the need to bring down tax arrears. We are constantly endeavouring to bring it down, but we cannot eliminate it completely.

2.7. The Committee desired to be furnished with a statement showing the (i) arrear demand and (ii) current demand; the number of assessee and total demand as on 31.3.78 and 31.3.79 under the following groups:

- (i) Upto Rs. 1 lakh
- (ii) Over Rs. 1 lakh and upto Rs. 5 lakhs
- (iii) Over Rs. 5 lakhs and upto Rs. 10 lakhs
- (iv) Over Rs. 10 lakhs and upto Rs. 25 lakhs
- (v) Over Rs. 25 lakhs and upto Rs. 1 crore
- (vi) Over Rs. 1 crore.

2.8. In reply, the Ministry of Finance have stated that the requisite information regarding the number of assesseees from whom (i) arrear demand (ii) current demand outstanding as on 31.3.78 and 31.3.79 under the various income groups is not readily available as it is not maintained according to “Income Groups”. The collection of the required information by scrutiny of individual records from the field offices spreading all over the country will involve considerable time and labour. However, information regarding arrears due under the various tax arrear ranges as on 31.3.78 and 31.3.79 is available in the C&AG’s Report for the year 1978-79, at page 12 against para 6 (iii).”

2.9. The Committee further called for a statement showing the total arrear demand of Rs. ten lakhs and above as on 31.3.78 and 31.3.79 outstanding against each monopoly house covered by the Monopolies and Restrictive Trade Practices Act, 1969. The Ministry accordingly furnished a statement which is reproduced in Appendix I.

2.10. The Committee observe that one of the major problems on which particular emphasis was laid in the Action Plan for 1978-79 was the menace of "ever increasing tax arrears" which stood at Rs. 990 crores as on 31-3-78. The action plan envisaged collection of at least 55 per cent of the gross arrear demand and 90 per cent of the gross current demand. The actual achievement was 44.4 per cent collection of the gross arrear demand and 90.6 per cent of the current demand. The gross arrears were brought down from Rs. 990 crores to Rs. 911 crores at the end of the year 1978-79. The entire reduction of Rs. 79 crores is stated to have been achieved in the tax in arrears (from Rs. 634 crores to Rs. 555 crores). According to the Ministry, this reduction was achieved notwithstanding the fact during 1978-79, the Department raised a current demand of Rs. 205 crores more than in the preceding year.

2.11. The Committee do consider that commendable efforts have been made to reduce the tax arrears. It is, however, clear that more efforts are needed to reach the target, the achievement of which fell short by about 11 per cent. Thus, even if there is evidence of efforts being made in the direction of reduction of tax arrears, the efforts need to be augmented.

2.12. From the statement given in Appendix I the Committee find that the net arrears of tax outstanding against the monopoly houses covered by the MRTP Act, 1969 amounted to Rs. 1164.60 lakhs as on 31 March 1978 and Rs. 711.14 lakhs as on 31 March 1979. The Ministry have stated that "this statement does not include information about three dominant undertakings registered under section 20(b) of the MRTP Act, 1969."

2.13. The Committee recommend that information regarding tax in arrears and current demand exceeding Rs. 10 lakhs should henceforth be made available to Parliament through the Annual Reports of the Ministry.

### C. Scrutiny Assessments

3.1. The need for expeditious clearance of pending assessments particularly in big income cases has been pointed out by the Public Accounts Committee repeatedly in the past. To mention only a few of the Committee's earlier recommendations, attention may be drawn to paras 73 of 21st report (3rd Lok Sabha) 1.8 of 17th report (4th Lok Sabha) 1.9 of 76th report (4th Lok Sabha) 1.12 of 100th report (4th Lok Sabha) 1.42 of 117th report (4th Lok Sabha) and 4.4 of the 87th report (Fifth Lok Sabha). In para 1.33 of their 4th Report (1977-78) the Committee had, *inter alia* stated:

“Since under this (Action) plan, an Income-tax Officer could dispose of 75 per cent of company cases and 70 per cent of non-company cases as the case may be and still leave out the real big income cases as part of the remaining 25 per cent or 30 per cent, they would like the Central Board of Direct Taxes to re-examine this aspect and ensure proper planning of the work of Income-tax Officers so as to complete in time and on priority basis the high income group assessments expeditiously.”

#### *Company Assessments and other high income assessments*

3.2. The Action Plan for 1978-79 laid down a target of disposal of 90 per cent of the total workload of company assessments (with income above Rs. 25,000) and 75 per cent in respect of non-company scrutiny assessments with returned/last assessed income of Rs. 1 lakh and above.

3.3. The Tables in sub-paras (iv) and (viii) of Para 7 of the Audit Report (1978-79) show that the number of company assessments completed during the year 1978-79 was 35,982 as against 41,533 assessments completed during the year 1977-78. The number of such assessments pending at the end of the year was 40,563 as against 34,864 cases pending at the end of the previous year, 1977-78.

3.4. The Committee have been informed that Company assessments are made in company circles which have been carved out in important places such as Bombay, Delhi, Calcutta, Madras, Ahmedabad, Bangalore, and Hyderabad. Where, having regard to the workload, it is not possible to carve out separate company circles, company assessments are made by ITOs alongwith other cases over which they hold jurisdiction. Company assessments are also made in Central Circles where groups are centralised.

3.5. In reply to a question regarding the number of ITOs attached to the various Company Circles, the Ministry have, in a note, stated as follows:

“The information has been ascertained from all Commissioners barring a few. The following is the position as on 1.9.80.

No. of Company Circles	No. of ITOs	Remarks
89	295	In certain charges there is no separate company circle. The Income-tax Officers man charges which are mixed and included in this are cases of companies. Apart from this there are two IACs (Assessments) holding jurisdiction over companies.”

3.6. The Committee desired to know why the progress in the completion of company assessments was poor. The Ministry have, in a note, stated:

- “(1) During the year the emphasis was mainly on reduction of arrear demand. It would be seen that the gross arrears of Corporate tax have declined during the year from Rs. 185.96 crores to Rs. 168.04 crores.
- (2) The reduction in overall arrears was from Rs. 989.87 crores to Rs. 910.64 crores.
- (3) During the year the gross demand raised was Rs. 1799 crores as against Rs. 1593 crores in 1977-78.
- (4) The number of higher income assessments between 1 to 5 lakhs was 38251 against 36518 in the earlier year. The disposal in cases above Rs. 5 lakhs was 3714 against 3208 in 1977-78.

Though disposal of company assessments has fallen, more big cases have been disposed of, more demand has been raised and more reduction has been achieved.”

3.7. Elucidating the position further, the Member, CBDT stated in evidence:

“The disposal of higher income assessments between Rs. 1 and 5 lakhs was 38,251 as against 36,518 in the earlier year. Disposal of cases with income of above Rs. 5 lakhs was 3714 as against 3208 in the preceeding year. Regarding com-

panies, we have stated in reply to Questionnaires that in respect of all cases where the income fell between Rs. 1 and 5 lakhs we have disposed of 1733 assessments more. Where the income assessed was above Rs. 5 lakhs, we disposed of 506 assessments more. These are the cases from which we get substantial revenue. In fact, the main revenue comes from them. I do admit with very great respect, that there is some fall if we look to the scrutiny assessments as a whole, but in so far as the higher category cases are concerned, i.e. between Rs. 1 and 5 lakhs and above Rs. 5 lakhs, we have definitely given a better disposal and therefore, we are able to raise a demand which was more by Rs. 205 crores this year."

3.8. In a note subsequently furnished to the Committee, Government have given the following figures of performance in regard to disposal of scrutiny assessments during 1978-79:

Area of work	Workload	Expected disposal as per all India objective	Expected disposal as per C.I.T.'s objective	Actual disposal	% of Col. 5 to Col. 4.
1	2	3	4	5	6
Company assessments with income above Rs. 25,000/- . . . . .	23,625	21,262	17,353	12,166	70.1%
Non-company scrutiny assessments with returned/last assessed income of Rs. 1 lakh and above. . . . .	63,712	47,784	41,144	41,648	98.8%

3.9. In reply to a further question, the Ministry have informed the Committee that the total number of company assessments completed during the financial year 1978-79 was 35,982 as against 41,533 in the financial year 1977-78 thereby showing decline to the extent of 5,551. The \*category-wise disposal of company assessments for these two years was as under:—

	Cate. I	Cate. II	Cate. III	Cate. IV	Cate. V	Total
1977-78 . . . . .	14376	2165	1969	22,312	711	41,533
1978-79 . . . . .	13460	1869	1835	17,913	905	35,982

- \*Category I— Business Cases having income over Rs. 25,000.  
 Category II— Business cases having income over Rs. 15,000 but not exceeding Rs. 25,000  
 Category III— Business cases having income Rs. 7,500 but not exceeding Rs. 15,000  
 Category IV— All other cases except those mentioned in category (V) below and refund cases.  
 Category V— Small income scheme cases, Government salary cases and non-Government salary cases below Rs. 18,000.



3.10. Shortfall to the extent of 4,399 out of the total shortfall of 5,551 is accounted for by decline in disposal of category IV company cases only. Thus the decline in completion of other categories of company assessments is small.

### *Wealth Tax Assessments*

3.11. In the Action Plan for 1978-79, the objective set was to complete all arrear wealth tax assessments pertaining to the year 1975-76 and earlier years. However, from the figures of wealth tax assessments pending on 31 March, 1979, as given in the Audit paragraph, it is seen that 9,942 such assessments pertaining to 1974-75 and earlier years, and 35,936 such assessments pertaining to the year 1978-79 remained pending on 31 March, 1979. Similarly, the overall figures of pending wealth tax assessments also went up from 3,14,224 on 31 March, 1978 to 3,31,561 on 31 March, 1979.

3.12. One of the reasons given by the Ministry for tardy performance in the disposal of Wealth tax assessments during 1978-79 is as follows:

“Under section 17A(1) of the Wealth-tax Act, 1957, assessments for and upto the assessment year 1974-75 were getting time barred on 31st March, 1979. The Income-tax officers had to devote more time to complete the pending wealth tax assessments.”

3.13. During evidence, the finance Secretary explained:

“That was the year in which there were a large disposal of wealth-tax assessments which were getting time barred and the department concentrated on wealth-tax assessment cases and more than 1 lakh wealth-tax assessments were disposed of. You need time to dispose of these assessments and in relation to ordinary income-tax cases, penalty cases, the demand raised on wealth-tax was more. I am not saying or condoning any delay. All that I am saying is that in making your judgement you kindly take this factor also into account.”

3.14. In one of the replies subsequently furnished to the Committee, Government have *inter alia* stated:

“The gap in performance in certain areas of work is covered by higher achievements in some other areas namely, disposal of wealth tax assessments, from 3,15,660 in 1977-78 to 4,65,894 in 1978-79.....”

3.15. In reply to a question regarding the number of wealth-tax assessments pertaining to assessment year 1974-75 and earlier years pending as on 1-4-1978 and how many of these were completed during 1978-79, the Ministry have furnished the following information:—

(i) Wealth-tax assessments pertaining to A.Y. 1974-75 and earlier years pending as on 1-4-78.	62651
(ii) Wealth-tax assessments pertaining to A.Y. 1974-75 and earlier years pending as on 1-4-79.	9942
Disposal of above cases during 1978-79 (i—ii)	52709

3.16. Explaining the reasons for increase in the number of pending wealth-tax assessments from 3.14 lakhs on 31-3-78 to 3.32 lakhs on 31-3-79, the Ministry have stated:

“The increase in pendency is not much. However, this is on account of the ever mounting work load without the corresponding increase in staff strength.”

3.17. It will be seen from the table given in sub-para (vii) of para 7 of the Audit Report (1978-79) that the increase in pendency is sharper in big income cases 14 per cent for category I and 8 per cent for category II than for low income cases in categories III and IV (4 per cent and 1 per cent respectively). The Committee desired to know if the matter had been looked into and if so what corrective steps were contemplated in this regard. In a note, the Ministry of Finance have stated:

“There is an overall increase of 25 per cent in pendency as on 31st March, 1980 as compared to 31st March, 1978. The increase in the pendency in respect of Category I & II cases is however relatively lower at 14 per cent and 8 per cent respectively. The higher rates of increase in pendency in the Category I and II cases as compared to the smaller category of cases is due to assessments of higher category cases requiring longer time for their completion. During the year 1978-79, the attention of the Income-tax Officers was diverted to other and equally important arrears of work, the reduction of tax arrears occupying the highest priority. Constant efforts were put in this direction as is reflected by the fact that the reduction in the arrears demand outstanding during the year was of the order of Rs. 79.23 crores. This fact will assume significance if at the same time note is taken of the fact that during 1978-79, the extra current demand created over 1977-78 was of the order of Rs. 130.82 crores.

Again wealth tax assessments for assessment year 1974-75 and earlier years were getting barred by limitation by 31st March, 1979. This naturally compelled the Income-tax Officers to devote more time for completion of wealth tax assessments which were getting barred by limitation. During 1978-79, there was a disposal of 4,75,021 wealth tax assessments as against 3,18,565 during the year 1977-78 which represents an increase of 49 per cent. Similarly the number of penalty orders passed under section 271(i) during 1978-79 was of the order of 28,776 as compared to the corresponding figure of 8613 for 1977-78. A penalty order u/s 271(i)(c) for concealment of income takes time as before the levy of the penalty, the Income-tax officer has to give the assessee full opportunity for being heard and for establishing concealment, the onus is on the Income-tax Department. Coming to the quality of assessment itself, it would be seen that the number of assessments involving total income between 1 to 5 lakhs and above 5 lakhs was higher during the 1978-79.

The comparative figures are given below:

Financial Year	No. of assessments disposed of between Rs. 1 lakh to 5 lakhs	No. of assessments disposed of above Rs. 5 lakhs
1977-78	36,518	3,208
1978-79	38,251	3,714

The Action Plan for 1980-81 lays down the highest priority for making of scrutiny assessments. It has laid down a disposal target of 65 per cent of the total workload for the current year.”

3.18. Asked whether the Department had made any specific study about the requirement of officers at higher level to cope with arrears of assessments having high revenue potential the Chairman, CBDT stated in evidence:

“With a view to tackling important cases, the Department has introduced the system of assigning such cases to IACs as we call them IACs assessment who function as ITOs. This institution was brought into force from 1978 when 63 IACs were put on this job of IAC assessment and in the next year, in August 1979, another 45 IACs were put on this job. Today there are nearly 108 IACs assessment in all working all over the

country and mainly at the bigger centres. They work as IACs when they have to do all the cases themselves. They also perform the functions under Section 125A which gives concurrent jurisdiction to the IAC alongwith a team of 2 to 3 ITOs attached to him and delegating certain other functions to the ITOs. They have now been in position for about 2 years. It took sometime for them for these things to be set up.

According to the reports of the Commissioner here, I have instances of various additions made by these IACs functioning as ITOs in about 54 cases. The additions run from thousands to crores of rupees even. In as many as 25 cases these IACs are able to make disallowance or additions amounting to about Rs. 25 crores. This institutions has come into existence and we hope it will be functioning better.”

3.19. The Committee find that as against the Action Plan target for disposal of 21,262 company assessments with income above Rs. 25000/-, the actual disposal during 1978-79 was of 12,166 cases only—a shortfall of 9,096 cases or nearly 43 per cent. Other non-company scrutiny assessments with returned/last assessed income of Rs. 1 lakh and above also fell short of the target by 6,136 cases i.e., by nearly 13 per cent. The total number of company assessments completed during 1978-79 was 35,982 as against 41,553 in 1977-78 i.e., 5,551 cases short of the previous year's performance. The pendency of company assessments went up from 34,864 at the end of 1977-78 to 40,563 at the end of 1978-79. The overall pendency in big income cases was 14 per cent category I (i.e., business cases having income over Rs. 25,000) and 8 per cent for category II (over Rs. 15,000 but not exceeding Rs. 25,000/-) as against 4 per cent and 1 per cent respectively for categories III and IV i.e., low income cases.

3.20. The Committee further observe that even though the disposal of wealth tax assessment went up from 3.16 lakhs in 1977-78 to 4.66 lakhs in 1978-79, the total pendency of such cases also increased from 3.14 lakhs as on 31-3-78 to 3.32 lakhs as on 31.3.79. In spite of the fact that the Action Plan laid specific stress on disposal of wealth tax assessments which were getting time barred on 31 March 1979, as many as 9,942 such assessment pertaining to 1974-75 and earlier years remained pending on 31-3-1979.

3.21. The Committee thus find that the Action Plan targets in the above important categories of scrutiny assessments could not be achieved by the Department in spite of the fact that these had been identified as key result areas and special company circles were carved out in important places. The Department has also been assigning high income cases to senior officers designated as IACs (Assessment).

3.22. The Committee regret to note that inspite of these measures the Department failed to achieve the targets for disposal of high income assessments during 1978-79. The Committee consider that much more vigorous efforts are called for in the matter of clearing the increasing backlog of high income cases than what has been in evidence thus far.

3.23. In this connection the Committee note that inadequacy of efforts was attributed also to insufficiency of staff. The Committee consider that for purpose of collection of revenue, adequate and efficient staff is sine quanon and therefore an evaluation is immediately necessary to determine how far the strength of the staff needs to be augmented to make the working of the Department more efficient.

#### D. Delays in disposal of cases due to frequent adjournments

4.1. The Public Accounts Committee (1968-69) had, in paragraph 1.80(iii) of their 73rd Report (4th Lok Sabha) suggested *inter alia* the following preventive steps to avoid accumulation of arrears:

“The real and serious reason for heavy arrears, as pointed out by the Working Group of Administrative Reforms Commission, is the tendency on the part of any Income-tax Officers to delay assessments till the end of the financial year and make cumulative assessments for more than one year, particularly in big assessment cases, resulting in piling up huge demands which naturally the assessee is unable to discharge. This tendency should be firmly checked and the assessment work spaced out evenly over the year.”

4.2. In reply, the Ministry had stated that instructions had been issued in October 1968 that the Income-tax Officer should plan their programme in such a way that assessment of cases involving large income was not crowded into the last month and the last week of the financial year. The Ministry added that the work of the assessing officers was closely watched by the Inspecting Assistant Commissioners and the Commissioners of Income Tax and necessary directions were issued where it was noticed that the disposal of cases per month was not uniform which might lead to heavy disposal of cases in the last months of February and March.

4.3. The Public Accounts Committee in para 3.21 of their 51st Report (1972-73) had taken note of substantial pendency of Category I and II cases and the fact that the assessments in such cases continued to be taken up for completion in the last three months of the financial year and especially in the month of March. They further observed:

“...The Committee are concerned over the plea of helplessness of the department in completing the assessment cases of bigger assessee before December. They, however, find that the working Group of the Administrative Reforms Commission have come to the conclusion on the basis of a case study that the total number of adjournments granted by the Income-tax Officer on his own is much higher than the number of adjournments asked for by the assessee. The Committee, therefore, desire that government should seriously consider this matter in

all its aspects and take effective measures, to discourage dilatory tactics on both sides—assesseees and the Assessing authorities—so that bigger assessment may be completed speedily.”

4.4. The Central Board of Direct Taxes while sharing the Committee's concern, issued the following Instruction (No. 521) on 12-3-1973:

“The Board share the Committee's concerns about substantial pendency of important assessments viz., Category I and II Income-tax assessments and the assessments under other direct taxes. It is important that these revenue yielding assessments are handled with maximum possible promptness. A notable contributing factor for delay in completion of these assessments is unnecessary adjournments given by the assessing officers on their own or on untenable requests from the assesseees. The Board desire that the assessing officers should, unless for compelling reasons, not adjourn such cases on their own and the assessee's request for adjournment in such cases should be weighed by them very carefully and conceded only if the circumstances pleaded are convincingly genuine and unavoidable. The Inspecting Assistant Commissioner's when inspecting the Income-tax Officer's work, should specifically look into this aspect and take note of avoidable and unnecessary adjournments.”

4.5. The Committee desired to know whether the matter had been gone into recently and any instructions given. The Chairman, C.B.D.T. stated in evidence:

“This point has been impressed upon the ITOs now and then. We also observe some particular weeks of fortnights as part of our public relations programme. There, we try to bring the ITOs and the assesseees together, so that they can understand each other, and the problems are solved quickly. I do not say that the ITOs are very regular and always give adjournments only for proper reasons. But they have their own difficulties in working. On many occasions we know that when the assessee is sent for to come at 11 A.M., he turns up at 4 P.M. You have to work in an atmosphere when the convenience of the ITO and of the other side are both looked into. We try to do the best, but because the ITO's engagements are fixed according to the extent of his charge—10 or 5 cases that day—according to the importance of the cases, sometimes he finds that the assesseees donot turn up, or only a few turn up. So, he is not able to fix his programme properly. May be the ITO is to blame to a certain extent. But these things are facts of life.”

4.6. In reply to a question if it was not necessary that the matter was looked into afresh and proper instruction/guidelines issued to check the tendency on the part of the ITOs to grant adjournments without adequate reason, the Member C.B.D.T. stated:

"I agree, Sir."

The Finance Secretary also stated:

"We have taken note of it."

4.7 In a further note on the subject, the Ministry have *inter alia* stated:

"The question of delays in completion of assessment due to adjournments being given by the Income-tax Officers has not been gone into in depth. However, there could be cases where the I.T.O.s have allowed adjournments for pressing official reasons such as being detailed on the day of the hearing in search duties. There could also be situations where adjournments are made necessary due to requests made by the assesseees. The appellate authorities may delete additions made in the assessment on the ground that sufficient opportunity has not been given to the assesseees. It is with a view to avoid such a situation that often Income-tax Officers are compelled to give adjournments."

4.8. The Committee had earlier in their 57th Report (1972-73) expressed concern over the plea of helplessness of the Department in completing the assessments of bigger assesseees and had recalled that the Working Group of the Administrative Reforms Commission had come to the conclusion, on the basis of a case study, that the total number of adjournments granted by the Income Tax Officer on his own was much higher than the adjournments asked for by the assesseees. The Committee had desired that Government should seriously consider this matter in all its aspects and take effective measures to discourage dilatory tactics on both sides so that bigger assessments could be completed speedily.

4.9. The Committee find that in spite of specific instructions issued by the Board, the assessing officers continue to adjourn high income group cases without compelling reasons. It was conceded during evidence that to a certain extent, the I.T.Os are to blame for unnecessary adjournments. The Committee recommend that some sample studies should be conducted in this regard and based on the results of the study, public instructions be issued to the assessing officers. This would also allay the misgiving in public mind that frequent adjournments are granted for extraneous reasons.



### E. Special Cell

5.1. A Special Cell was created in the Directorate of Inspection (Investigation) by an order dated the 29th June, 1972 of the Government with a view to effectively tackle tax evasion by large industrial houses under the immediate charge of an Additional Director assisted by 3 Deputy Directors and 6 Assistant Directors under the overall supervision of Director of Inspection (Investigation). At present, the Special Cell is headed by a separate Director of the grade of Commissioner of Income-tax Level I and assisted by 6 Deputy Directors and 12 Assistant Directors. The objectives of the Special Cell are as follows:—

- (i) Collection and supply of information to the Board regarding assessments completed, concealments detected, penalties levied, prosecutions launched, tax recovered, tax in arrears, progress of appeals and reference applications etc. in respect of cases belonging to big industrial houses;
- (ii) Research into the techniques employed by the big industrial houses for minimising tax liability in the case of companies, individuals and trusts belonging to the group;
- (iii) Expediting the completion of assessments, hearing of appeals and collection of dues;
- (iv) Ascertaining deficiencies and shortcomings of the Department in dealing with such groups;
- (v) Suggesting measures for adding to the effectiveness of the Department in dealing with cases of big business groups more expeditiously and adequately; and
- (vi) Providing guidance and assistance as to the mode of investigation and to take coordinated action on priority basis in the cases of groups assigned to the Cell.

5.2. During evidence, the Committee desired to know what criteria were followed by the Special Cell in selecting the industrial houses. The witness stated:

“The criteria for large houses are the same as have been adopted by the MRTP Act, viz. groups, houses or companies having assets of more than Rs. 20 crores. There is also an alternative or dominant criterion, viz., the total sales or production—not less than 1/3rd, having assets not less than Rs. 1 crore. This is a list prepared by the MRTP. I think the number of large houses is about 72. Under each house,

there are the companies lists. Due to constraints of manpower, it is not possible for the special cell, which has now 6, Deputy Directors of the rank of Assistant Commissioner and 12 Assistant Directors of ITOs' rank, to do a complete job. In fact, the total number of companies covered by these groups speaking roughly, off-hand, will be more than 2,000. What is done, therefore, is that the Board decides from time to time what group/cases will be looked into. . . .

**I**nitially, when the cell was created in 1972, 2 or 3 groups like Birlas and Bajoria-Jalan were taken up. Subsequently, further groups were added; and it now includes Birlas, Modis, Dalmias, Kapadias, IBM, foreign banks, J.K., Raunak Singh, Goenka and Jaipuria. There are 11 groups now. About criteria, we get directions from the Board; but I believe the criterion is 2-fold. One criterion is the total amount of assets i.e. if the amount involved in the assets of a group is very large, it is taken into account. Secondly, there may be some specific complaints, in certain cases, against a group; and the Board or Government may decide that these cases should be looked into, in depth. For example, as a result of the PAC's observations, the cases of the foreign banks were assigned. Similarly, if some complaints are received by the Board, or in the field, and if it is decided to look into them in depth and investigations in detail are required, these are assigned. I think this is, by and large, the criterion. The method by which we operate is that we find out the relative importance of all the groups. We go to the field and discuss with the Commissioner concerned as to which are the important cases, in which investigation should be concentrated during a particular year; or whether there are specific tax evasion cases."

### 5.3. He added:

"It is not possible, every year, to take up all the cases. So, in each group we decide upon an annual plan. . . . I have got figures for 1979-80. There were 72 assessments in which we were actively involved and as a result of the investigation made, additions of about Rs. 48 crores were made. Similarly, for the earlier year also, the additions were a little more. This is the *modus operandi*. This year, we thought of devising a different plan of action. We know that there are certain industries in which there are shortages. We have picked up 5 or 6 of these industries, e.g. soda ash, cement, sugar, aluminium and paper. This year we have taken up industries

belonging to large houses which are carrying on manufacturing or trading in these items. In other words, interest of picking up individual cases, we have picked up 6 or 7 industries. Cases which are engaged in these industries will be looked into in detail, and there will be investigation with our assistance."

5.4. Asked whether the addition of Rs. 48 crores made from these 72 assessments in 1979-80 represented concealed income, the Member C.B.D.T. clarified:

"Total additions made would include concealed income or cases of tax-avoidance or other additions."

5.5. Asked whether the Special Cell did not keep surveillance over all the companies numbering 2000 or so, Finance Secretary stated:

"MRTP companies as such need not necessarily be a candidate for surveillance. Normally, the monitoring of their assessment should be the special concern of the Commissioner of Income Tax. We have also created a central circle where these assessments were centralised. The objective of the special cell, as I have understood, is to get the surveillance over such of those large houses or individual units in respect of which Government have reason to fear that there has been exactly an evasion of taxes. In my opinion, their assessment should be dealt with at a higher level. But, he, as Director In-charge of the Special Cell, intervenes and provides them direction and guidance to see that they are tracked down. Since we know this year, because of shortage of certain commodities and break down of distribution arrangement, etc., in certain areas, certain industries are known to have made a lot of money, we asked them to look into the assessment of such industries with special care. The responsibility has also been entrusted to them. There is a need for keeping the bigger assessments under special review. This work can best be done on a decentralised basis, at the level of the Commissioner and so on. It cannot be done through one cell however effectively it might be manned. There are cases where the Director of a special cell provides that little input which is needed to bring tax evaders to book."

5.6. Asked whether Government were aware that due to inadequate manpower the Special Cell could not maintain surveillance over all the 2,000 or so MRTP companies and whether special attention was not needed to deal with them considering the fact that these companies had been adopting the same methods of tax evasion and avoidance as the multi-nationals the witness stated:

"We will consider it, we will request the Board to come with concrete proposals."

5.7. In reply to a further question regarding the difficulties in augmenting the assessing staff at IAC level for dealing with MRTP companies, the witness stated:

“The whole question of cadre review is under our consideration. The category of IAC assessment came into existence two years ago. If Reports obtained from the Board show that in many cases the IAC assessments have been more effective than the junior officials, certainly this category has to be expanded and and more cases have to be brought under them. We will go into this matter.”

5.8. In a further note furnished to the Committee, the Ministry have stated:

“Initially only two groups were assigned to the Special Cell and later other groups of large industrial houses were also assigned to it. At present 8 groups have been assigned to the Special Cell. The Special Cell is also coordinating the work relating to COFEPOSA cases. . . . The Special Cell does not have statutory powers of assessment, which are vested in the assessing officers in the field. The Special Cell carries out in-depth studies of the cases selected by it, supplements the information obtained by it with the field officer and issues guidelines for investigations to the field officer. It oversees not only the proper conduct of investigation but also ensures that proper assessments are made in the cases selected by it. In addition to overseeing the assessments and investigations in selected cases the Special Cell studies at the same time the *modus-operandi* employed for evasion/avoidance of tax by the concerns which are selected by it so that methods to be employed in detecting tax evasion can be devised. After all important aspects and all the important cases of a particular group have been studied and after ensuring that the assessments/investigations are being made on proper lines by the assessing officers in the field, the Special Cell ceases to oversee the assessments and investigations in that group and is assigned another group for in-depath study and investigations. Thus, a close watch is kept on investigations and assessments of cases by the Special Cell in the important cases of the groups assigned to it. Besides, dossiers are maintained by the assessing officers of tax arrears of Rs. 10 lakhs and above in all cases including cases of large industrial houses, which are overseen by Director (Recovery) in Directorate of Inspection (RS&P).”

5.9. Commenting upon the effectiveness of the Special Cell in the tasks assigned to it, the Ministry's note states:

“The effectiveness of the Special Cell is reflected in the substantial additions made in the assessments overseen by it and also in

the proper assessments in these cases. In addition, the results of the research studies disseminated to the assessing officers have been found to be a considerable value in educating the officers in the field in the methods and techniques devised by the large groups for evasion and avoidance of tax."

5.10. A special cell has been functioning in the Directorate of Inspection since June 1972 entrusted with the responsibility of effectively tackling tax evasion by large industrial houses. Originally only 2 Groups of industrial houses were entrusted to it. But now 8 Groups are entrusted to it. According to the Ministry, with the limited staff at its disposal, the Cell is not able to keep surveillance over all the 2000 and odd companies belonging to the large industrial houses covered under the MRTTP definition. The representative of the Ministry averred during evidence that surveillance over MRTTP companies should continue to be done by the existing field machinery on a decentralised basis. The Committee understand that during 1979-80, the Cell was actively involved in 72 assessments which yielded additional revenue of the order of Rs. 48 crores to the Government.

5.11. The Committee are strongly of the view that the activities of the large industrial houses need to be watched more closely than has been the case so far. Considering the fact that the monopoly houses in the country are increasingly adopting the same techniques and tactics of tax evasion and tax avoidance as the multi-national companies, the committee would emphasise the need for strengthening the Special Cell so that it becomes an effective instrument for overseeing the activities of the monopoly concerns; for directing, coordinating and expediting their assessments as well as for studying the various methods employed by them to evade/avoid their tax liability as to make it increasingly difficult for them to dodge the tax dragnet.

F. *Power to reduce or waive penalty etc. in certain cases*

6.1. Sec. 273A of the Income Tax Act *inter alia* provides:—

“Notwithstanding anything contained in this Act, the Commissioner may, in his discretion whether on his own motion or otherwise,—

- (i) reduce or waive the amount of penalty imposed or impossible on a person under clause (i) of sub-section (1) of section 271 for failure, without reasonable cause, to furnish the return of total income which he was required to furnish under sub-section (1) of section 139; or
- (ii) reduce or waive the amount of penalty imposed or impossible on a person under clause (iii) of sub-section (1) of section 271; or
- (iii) reduce or waive the amount of interest paid or payable under sub-section (8) of section 139 or section 215 or section 217 or the penalty imposed or impossible under section 273, if he is satisfied that such person—
  - (a) in the case referred to in clause (i) has prior to the issue of a notice to him under sub-section (2) of section 138, voluntarily and in good faith made full and true disclosure of his income;
  - (b) in the case referred to in clause (ii), has, prior to the detection by the Income-tax Officer, of the concealment of particulars of income or of the inaccuracy of particulars furnished in respect of such income, voluntarily and in good faith, made full and true disclosure of such particulars;
  - (c) in the cases referred to in clause (iii), has, prior to the issue of a notice to him under sub-section (2) of section 139, or where no such notice has been issued and the period for the issue of such notice has expired, prior to the issue of notice to him under section 148, voluntarily and in good faith made full and true disclosure of his income and has paid the tax on the income so disclosed,

and also has, in all the cases referred to in clauses (a), (b) and (c), co-operated in any enquiry relating to the assessment of his income and has either paid or made satisfactory arrangements for the payment of any tax or interest payable in consequence of an order passed under this Act in respect of the relevant assessment year. . .”

6.2. During the course of informal discussion with the Commissioners of Income Tax at Bombay, the Study Group of the PAC were informed that a circular had been issued by the CBDT restricting their discretion in settlement of cases u/s 273A where searches and seizures had been conducted as a result of which they had not been able to complete many an assessment even though the assesseees were willing to pay off their taxes. The witness replied:

“We have not divested them of their powers of settlement. According to law, they have to exercise their power under 273A. But they have to satisfy themselves under Section 273A that the cases are voluntary and before detection.”

6.3. Another Member, CBDT stated:

“Sir, no such circular has been issued which gives a blanket ban on application of 273A. In certain seizure cases what we have stated is that if a concealment is detected, then obviously that cannot come under 273A.”

6.4. In reply to a question if the Board had received any communication in this regard from any Income Tax Commissioner, the witness stated:

“I have already got a copy of the letter from the Commissioner. The problem is whether a partial detection vitiates the entire disclosure. There, our view is the proper one. But we will consult the Law Ministry.”

6.5. The Finance Secretary added:

“...I would go into this question if the Board has issued any circular or instructions which has the effect of circumscribing any power which the law has vested in the Commissioner of Income Tax that has to be reconsidered. On the other hand, if in the kind of case which Mr. . . . . . mentioned even under the law as it stands, the Commissioner cannot exercise his discretion then we cannot help. Then we have to think in terms of approaching Parliament for amendment of the law.”

6.6. In a note on the subject subsequently furnished to the Committee, the Ministry of Finance have clarified the position as under:

“The Taxation Laws (Amendment) Act, 1975 deleted the sub-sections (4A) and (4B) of Section 271 of Income-tax Act, 1961, relating to powers of the Commissioner to reduce or waive penalty in certain cases and enacted these provisions, with several modifications, in the new section 273A, the provisions of which came into force with effect from 1-10-1975. The Central Board of Direct Taxes have issued circular No. 179

dated 30th September, 1975 stating the main points of difference between the provisions in section 271 (4A) and (43) on the one hand and new Section 273A on the other. The Central Board of Direct Taxes have issued instructions explaining the scope and applicability of the provisions of Section 271(4A) (now deleted) and Section 273A. Copies of the following instructions have already been furnished to the Public Accounts Committee by this office O.M. No. 240/4/80-A&PAC-II dated 24th October, 1980.

1. F.No. 1/33/68-IT (Inv) dated 29th September, 1969
2. F.No. 4/49/69-IT(Inv) dated 30-9-1969
3. F.No. 281/40/77-IT (Inv) dated 25th January, 1978 (Instruction No. 1142)

Para 4 of the Board's Letter F.No. 1/33/68-IT(Inv) dated 29th September, 1969 was modified by issue of Instruction No. 822 dated 13-1-1975 conveying the Law Ministry's advice that for the purpose of deciding whether a return for a particular assessment year was filed voluntarily and in good faith, the Commissioners should take into consideration all the facts and circumstances of the case under which the return was filed, including the fact, if any, that the said return was filed by the assessee after getting a notice u/s 139(2) in respect of another assessment year.

The Central Board of Direct Taxes have not issued any instruction to the Commissioner which had the effect of or which could be construed as fettering their discretion in dealing with cases falling under Section 271(4A) (now deleted) or Section 273A of Income-tax Act, 1961. The Central Board of Direct Taxes is aware that powers which are vested in the Commissioners under section 273A are quasi-judicial powers and have to remain unfettered."

6.7. Asked to what extent the powers/discretion vested in the Commissioners u/s 273A were circumscribed in cases where searches and seizures were involved, the Ministry have stated:

"The Commissioner of Income-tax can invoke his powers under section 273(1) of I.T. Act and give relief to the assessee, if the conditions laid down in Section 273A of I.T. Act, 1961 are satisfied. Even in a case of search, if the Commissioner finds after considering all the facts and circumstances of the case that the conditions laid down in Section 273(1) of I.T. Act, 1961 are satisfied the Commissioner can invoke the provisions



of Sec. 273(1) of I.T. Act and grant relief to the assessee. However, a disclosure following a search in which unaccounted cash or other incriminating documents were discovered cannot be said to be voluntary and prior to the detection of concealment of income and therefore, such of the search cases would be outside the purview of Section 273(E). The Board has issued only clarifications as above in item (vii) of Paragraph 16 of Board's letter F.No. 1/33/68-II(Inv) dated 29-9-1969 and Instruction No. 1142 dated 25-1-1978 (copies already furnished). The Commissioner's powers u/s 273A(1) for waiver/reduction of penalties and/or interest are circumscribed only by the conditions stipulated in the above section which are to be satisfied."

6.8. It will be seen that the latest instruction in this subject is Instruction No. 1142 dated 25 January, 1978. Relevant extracts therefrom are reproduced below:

"The Receipt Audit have brought to the Board's notice a case in which books of account, etc. indicating concealment were seized. While enquiries were in progress, the assessee came forward with an offer of settlement. A settlement was finally arrived at, which, according to the Commissioner of Income-tax, was in the best interest of revenue as, in the normal course, the Department could not frame an assessment on the figures agreed to by the assessee nor levy any penalty. Assessments made accordingly and penalties were reduced u/s 271(4A), as an integral part of the settlement.

In the Board's confidential letter F.No. 1/33/68-IT(Inv) dated 29 September, 1969, the connotation of the words 'voluntary' and 'disclosure' used in section 271(4A) was explained and it was clarified, *inter alia* that section 271(4A) did not authorise a settlement of cases *i.e.*, making of assessment and levy of tax on the basis of a contract or agreement between the assessee and the Commissioner by giving the assessee certain concessions not permissible in law because of the reduced paying capacity of the assessee or because the prospects of having the assessments sustained in appeal were not very bright in return for the assessee's agreeing to be assessed on incomes which might not otherwise be taxable. Further, a disclosure following a search in which unaccounted cash or other incriminating documents were discovered cannot be considered a voluntary one."

**6.9. The Committee take note of the specific assertion made by the official representatives of the Ministry during evidence that no circular**

had been issued by the CBDT which fettered the discretion of the Income tax Commissioners in the matter of reduction or waiver of penalty in cases where the assessee has voluntarily and in good faith made true and full disclosure of his income (otherwise than provided in the Act itself)... In view of certain doubts about the interpretation of the legal provisions in this respect, particularly in regard to the question whether a partial detection vitiates the entire disclosure, the Committee suggested that the views of the Law Ministry may be obtained in this regard.

6.10. The Committee consider that a very hard headed and pragmatic view must be taken in the matter of settlement of cases. In its anxiety either to collect fancy quantum of taxes which are never realised or in its anxiety to penalise the assesseees who are rarely prosecuted, the mechanism of settlement contemplated in section 273(A) should not be allowed to rust where as a result of settlement better revenues can be collected by the Government. Keeping this in view, the Board should issue suitable instructions in the matter and dispel the apprehensions in the mind of the Commissioners that their hands are fettered in the matter of exercising powers under Section 283(A) and other connected Sections of the Income-tax Act, 1961.

## G. Summary Assessment Scheme

7.1. The Summary Assessment Scheme was given a statutory basis by the amendment to section 143 of the Income tax Act, 1961 by the Taxation Laws (Amendment) Act, 1970. Clause (b) was inserted in section 143(1) and the four sub-clauses to clause (b) enabled the Income tax Officers to complete assessments without calling the assessee after making adjustments to the returned income so as to, *inter alia*, allow/disallow any claims etc. which on the basis of the return and accompanying documents is *prima facie* admissible/inadmissible. In order to further speed up the pace of disposal of summary assessments, the Finance (No. 2) Act, 1980 has deleted sub-clauses (i) and (iii) of section 143(1)(b) with effect from 1 April, 1980. Income Tax Officers will hereafter be able to dispose of assessments falling under the scheme without spending any time on checking whether the statutory adjustments permitted earlier by the two sub-clauses are necessary in the first place, and carrying them out thereafter.

7.2. From the Table given under sub-para (v) of the Audit paragraph, it is seen that of the 33.12 lakh assessments completed, as many as 24.12 lakhs were summary assessments. The Committee desired to know the types of assessments that were categorised as 'Summary assessments'. The Ministry of Finance have, in a note stated:

"The Summary Assessment Scheme has been implemented with reference to two concepts. The first is the income limit which marked the dividing line between a summary assessment and a non-summary assessment. The monetary limit has also been applied with reference to the returned/assessed income in cases falling under the scheme, the idea being that the income returned in the year for assessment should be below the limit and the income assessed in the earlier two|three years is also below that limit. Initially the monetary limit for summary assessment was prescribed at Rs. 25,000|- for all charges except Bombay and Calcutta where it was fixed at Rs. 50,000|-. A uniform limit was introduced for all charges in 1977. In the case of registered firms with returned|assessed income of less than Rs. 75,000|- and in other cases with returned|assessed income less than Rs. 50,000|- the summary assessment scheme became applicable from 1977 in all charges. The limit has been raised to Rs. one lakh uniformly in all cases in 1980-81.

The second concept in the implementation of summary assessment scheme has been the class of cases in which the summary assessment scheme would not apply. This is being fixed administratively."

7.3. As a percentage of assessments completed both in 1977-78 and 1978-79, about 74 per cent are by way of summary assessments, but in absolute terms the number of summary assessments completed during 1978-79 has gone down by over 5 lakhs. Asked to indicate the reasons therefore, the Ministry have stated:

The following table gives the comparative position of total disposal and summary assessments disposals during 1978-79 and 1977-78:

	1978-79	1977-78
(i) No. of Summary assessments for disposal .	34,28,196	36,50,334
(ii) No. of summary assessments disposed of .	24,12,165	29,87,927
(iii) Total No. of disposals . . . . .	33,12,100	40,43,813
(iv) Percentage of (ii) to (iii) . . . . .	73%	74%

In 1978-79 a conscious decision was taken not to make assessments in ineffective cases and as a result the number of such disposals was lower by 1,64,000 in 1978-79 as compared to the position in 1977-78.

The Finance (No. 2) Act, 1977 raised the basic exemption from Rs. 8000 to Rs. 10,000 applicable for Assessment Year 1978-79. This would naturally result in a number of assessee's having incomes in the Rs. 8000—10000 bracket not being assessable as before."

7.4. In regard to sample scrutiny of cases under the summary assessment scheme, the Department having stated:

"The scheme of sample scrutiny of cases falling under summary assessment scheme is an integral part of the scheme. The sample scrutiny is made by picking up on a random basis a fixed percentage of cases completed in the earlier year under the summary assessment scheme."

7.5. In regard to pre-assessment selection checks, the Department have, in a note furnished to the Committee, stated:

"In order to ensure that no summary case is wrongly converted into a scrutiny case or vice-versa a check sheet has been prepared giving various details including specific reasons that the

case is taken as a summary case or otherwise. A special format for summary making assessments has been devised in order to save time. No time demand notice is to be issued in respect of a summary assessment which does not result in liability to pay tax or interest after giving credit to pre-paid tax, etc. The only situation when a demand notice is to be issued are where adjustments provided under section 143(1)(b) have been made or the assessment results in any liability to pay tax or interest, after giving credit to pre-paid taxes. Now that the adjustments under section 143(1)(b)(ii) and (iii) are not permissible, the number of cases where a demand notice would have to be issued will be reduced, leading to quicker assessments."

7.6. In another note, the Ministry have furnished the following information:

(In Crores of Rupees)

Financial Year	Total demand raised	Demand raised under Section 143 (1)	Percentage
1975-76 . . .	1194.22	150.90	12.6
1976-77 . . .	1273.03	156.48	12.3
1977-78 . . .	1426.96	177.59	1.24
1978-79	1557.78	166.37	10.67

7.7. Asked to indicate how the limit for summary assessment had been raised to Rs. 1 lakh in 1980-81, the Finance Secretary replied:

"So far as this particular question about the increase in the limit of summary assessment from Rs. 75,000 to Rs. 1,00,000 is concerned, it was done because the limit was already Rs. 75,000 and in view of the decision taken to concentrate on the more important cases—here also new cases whatever their income. they will not come under the summary assessment. Large number of categories have been excluded from summary assessments. This year's decision is limited to cases from Rs. 75,000 to Rs. 1 lakh. That was arrived at on the basis that the number which is involved will not be so very large. We will concentrate on the more important cases."

7.8. Asked whether the successive increases in the limit of summary assessment had not reduced the workload considerably without corresponding improvement in the performance of the organisation, the Member, C.B.D.T. informed the Committee:

“Weaknesses are there in every organisation. There may be weakness with us also. So far as the summary assessment scheme is concerned, it envisages that certain cases upto a certain money limit were to be disposed of without calling the assessee to the income-tax office. But, all the same, an office audit was prescribed as against detailed audit, which is done when a tax-payer comes to the income-tax office. For doing office audit, within the monetary limit, there are 14 categories which are taken out of the summary assessment scheme. That has to be seen. In every case that is to be disposed of summarily, we have to examine if the case falls in any one of those excluded categories.”

7.9. Asked whether the witness meant to say that the summary procedure had been negatived, the Finance Secretary, clarified:

“If I may interpret my colleague, summary assessment scheme does serve a very useful purpose in the sense the assessee is not to be called to the income-tax office. But whether a case is one of summary assessment or not has to be decided by somebody by applying his mind. Therefore, it does call for some work.”

7.10 In reply to a specific question, whether the object of introducing the scheme *viz.*, to deal with smaller cases in a summary manner, had been achieved, the Finance Secretary stated:

“I agree that the number of pending assessments should be brought down significantly. It is with that end in view that we evolved the scheme of summary assessment, with all its merits and demerits. The idea was that ITOs should not waste their time on petty cases.”

7.11. In a subsequent note furnished to them, the Committee have been informed that the Action Plan for 1978-79 had visualised disposal of 90 per cent of summary assessment cases. The targets fixed and the actual achievement was as follow:

(i) Workload . . . . .	19.33	lakhs
(ii) Expected disposal as per all India objective . . . . .	26.40	„
(iii) Expected disposal as per C. I. Ts objective . . . . .	24.16	„
(iv) Actual disposal . . . . .	20.88	„

7.12. The Committee desired to know on what considerations it had been decided to raise the limit for summary assessment to Rs. 1 lakh and what steps had been devised to ensure that this scheme was not abused. In a note, the Ministry of Finance have stated:

“The scheme in the present form was made in order to make optimum use of available manpower, and time so that cases requiring scrutiny are properly scrutinised. Once smaller cases are dealt with in a truly summary manner the ITO can examine the other cases thoroughly, collect and sift the evidence properly and make scrutiny judiciously so that equality of assessment improves, additions are made which may stand the test of appeal, concealments are detected and the evaders punished.”

7.13. The following measures have been adopted to prevent the abuse of Summary Assessment Scheme:

- (i) Section 139(9) has been introduced in the IT Act by the Finance Act, 1980 according to which it has been made obligatory on the assessee to comply with certain conditions and to attach to the IT returns, certain statements and documents. These are as under:—
  - (a) the Annexures, statements and columns in the return of income relating to computation of income chargeable under each head of income, computation of gross total income and total income have been filed in.
  - (b) The return of income is accompanied by the following, namely:
    - (i) A statement showing the computation of the tax payable on the basis of the return;
    - (ii) the proof of the tax if any, claimed to have been deducted at source and the advance tax and tax on self-assessment, if any, claimed to have been paid;
    - (iii) the proof of the amount of compulsory deposit, if any, claimed to have been made under the Compulsory Deposit Scheme (Income-tax Payer) Act, 1974.
    - (iv) where regular books of account are maintained by an assessee;
      - (i) Copies of manufacturing account, trading account, profits and loss account, or income and expenditure account, or any other similar account and balance sheet;
      - (ii) in the case of proprietary business or profession the personal account of the proprietor; in the case of a firm, association of

persons or body of individuals, personal accounts of the partners or members and in the case of partner or members of a firm, association of persons or body of individuals also his personal account in the firm, association of persons or body of individuals.

- (v) where the accounts of the assessee have been audited copies of the audited profit and loss account and balance sheet and copy of the auditor's report;
- (vi) where regular books of account are not maintained by the assessee, statement indicating the amounts of turnover or gross receipts, gross profits, expenses, and net profit of the business or profession and the basis on which such amounts have been computed, as also of the amounts of total sundry debtors, sundry creditors, stock-in-trade and such balance as at the end of the previous year.

The ITOs have been empowered to declare a return as invalid if the assessee fails to remove the defects within the time allowed by the I.T.O. It is expected that this provision will prove effective in preventing abuse of the Summary Assessment Scheme.

- (ii) An essential feature of the Summary Assessment Scheme is that a certain percentage of such cases will be selected for detailed scrutiny. The selection of cases is to be made on the basis of random sampling. Further, all cases upto Rs. 1 lakh do not necessarily fall under the scheme. There are various exceptions provided e.g. new cases, search cases, most of the company cases, tax-evasion cases etc. The latest list of excluded cases is given below:

#### TYPES OF ASSESSMENTS TO BE REGARDED AS FALLING INTO CASES NEEDING SCRUTINY

1. All cases assigned to IC (Assessment).
2. All cases assigned to Central Circles/Film Circles/Special Investigation Circles/Special Circles.
3. All assessments upto the date of search and seizure (for assessment year to which the material seized during the course of the search relates).
4. Cases of suspected tax evasion selected for detailed investigation by the Income-tax Officers with the approval of the Inspecting Assistant Commissioners/Commissioners.
5. Cases belonging to trades where tax evasion could be suspected during the relevant previous years to be selected on the basis of instructions to be issued later by the Board.



6. Company cases (other than summary) including cases of Directors, Executives etc. of companies at present assigned to company circles and sur-tax cases.

(i) For the year 1980-81, in the case of companies where income returned is Rs. 10,000 or less and paid up capital is Rs. 5 lakhs or less will be completed in a summary manner, exceptions being first assessments and cases where legal issue raised in the past assessments have bearing on the pending assessments.

(ii) Company cases with returned loss upto Rs. 500|- may be completed in a summary manner excepting cases involving first assessments and where legal issue raised in the past assessments have a bearing on the pending assessments.

7. All cases other than company/companies, including cases of Partners where the returned of assessed income in any one year out of the last three assessment years, namely assessment years 1977-78, 1978-79 and 1979-80 was Rs. 1 lakh or above.

8. All Income tax cases in which the wealth returned/assessed for any one of the last three assessment years, namely 1977-78, 1978-79 and 1979-80 was Rs. 5 lakhs or more.

9. All cases of Trusts and Charitable Institutions.

10. All cases showing losses exceeding Rs. 25,000.

11. Summary cases selected for random scrutiny.

12. All cases re-opened under section 147 or/and all cases where fresh assessments have to be made as a result of cancellation/setting aside of the earlier assessments under the provisions of section 146, 251 etc.

13. All new cases (including cases involving change of status or change in constitution of a firm).

14. All cases in which Section 44AA of the I.T. Act, 1961 is attracted and where books of account are not maintained.

7.14. The summary assessment scheme was launched in 1970 with a view inter alia to achieve larger disposals in cases with comparatively smaller incomes so as to bring down the pendency of assessments in a significant manner. With this end in view, the initial monetary limit of Rs. 25,000/- for summary assessments has been progressively raised and at present it is Rs. one lakh uniformly in all cases.

7.15. Of the 52.36 lakh assessments for disposal at the beginning of the year 1978-79, as many as 34.28 lakhs comprised summary assessments. The Committee find that whereas the number of summary assessments completed in the previous year viz., 1977-78 was 29.88 lakhs, those completed under this scheme in 1978-79 declined to 20.83 lakhs. Thus, the number of summary assessments completed during 1978-79 registered a decrease of 9 lakhs over the previous year. As compared to the action plan target of 26.40 lakhs the performance fell short by 5.82 lakh cases i.e. by over 21 per cent. As per figures given in the audit report the pendency of summary assessment cases went up from 6.62 lakhs as on 31-3-78 to 10.16 lakhs as on 31-3-79.

7.16. One of the reasons advanced by the Ministry of Finance is that in 1978-79, a conscious decision was taken to keep the number of assessments in effective cases (i.e. where the income is below the taxable limit) at a low level. Another argument advanced by the Ministry for lower disposals in summary assessment cases is that the raising of basic exemption limit from Rs. 8,000 to Rs. 10,000 applicable for assessment year 1978-79 resulted in a number of assesseees having income in the above bracket not being assessable as before.

7.17. The Committee are not convinced with the reasons given for the substantial shortfall in disposal of summary assessment cases during 1978-79 since the action plan targets were fixed after taking into consideration all relevant factors.

7.18. As would be seen from the figures given earlier, the disposal of scrutiny assessment during the year 1978-79 was also far below the prescribed targets. The Ministry have themselves admitted—“The main rationale of the summary assessment scheme was to utilise the manpower saved to make detailed investigation in all the cases left for scrutiny. This objective has not been pursued.”

7.19. As the objective underlying the summary assessment scheme, viz., to utilise the manpower saved to make detailed investigation in scrutiny cases has not been fully achieved, the precise reasons for increasing the monetary limit for summary assessments to Rs. 1 lakh need to be explained to the Committee. The Committee recommend that since the scheme has been in operation for over ten years, an overall evaluation of the scheme may be made with a view to finding out how far it has succeeded in expediting the disposal of cases, reducing the cost of collection, saving in manpower etc. A sample study should also be made to ascertain the extent of suppression of revenue-yield as a result of adoption of the summary procedure.

## H. Augmentation of Staff Strength

8.1. The number of sanctioned posts of ITOs, IACs and Cs I T in the Income Tax Department as on 1-4-77, 1-4-78 and 1-4-79 *vis-a-vis* the actual working strength was as follows :

	Sanctioned Strength			Actual strength		
	ITOs	IACs	CsIT	ITOs	IACs	CsIT
i) 1-4-77	3392	290	73	3389	280	63
ii) 1-4-78	3642	294	73	3603	294	86
iii) 1-4-79	3746	377	156	3739	357	153
iv) Total increase	354	87	83	350	77	90

8.2. The number of Income-tax Officers who were actually engaged on assessment functions during the financial year 1976-77, 1977-78 and 1978-79 is given below :

Year	No. of ITOs
1976-77	2575
1977-78	2622
1978-79	2747

8.3. As regards the number of IACs who had been assigned assessment functions, the Ministry have stated :

“An amendment was introduced by inserting Section 125A in the Income-tax Act, 1961 by Taxation Laws (Amendment) Act, 1975 w.e.f. 1-10-75 to give concurrent jurisdiction to IACs for assessment work. As an experimental measure very few (total 5) IACs were given assessment work in Bombay, Delhi, Kanpur and some other places. The institution in a fullfledged manner started functioning when 63 posts of IACs (Assessment) were sanctioned in October, 1978 and further 45 posts were sanctioned in August, 1979.

Five types of cases have been generally assigned to these Ranges:—

- (a) Cases having income of Rs. 5 lakhs and above;
- (b) Search and seizure cases;
- (c) Foreign company cases;
- (d) Selected Trusts cases; and
- (e) Selected Tax fraud cases involving prosecution or concealment.

8.4. The Committee enquired whether the Board had laid down any standards for completion of assessments of various types. The Ministry have stated :

“In the past the work of an Income-tax Officer was measured in terms of the number of cases done by him, falling into five categories referred to as categories I, II, III, IV and V. These categories were fixed with reference to the assessed income. A further measure of work done by the Income-tax Officer was the standard unit which had a correlation with the assessments by the I.T.O.

In 1968, the Staff Inspection Unit of the Department of Expenditure, Ministry of Finance conducted a study and as a result thereof norms for different types of cases were fixed.”

8.5. The following standards of output were fixed in 1969 as a result of the study made by the Staff Inspection Unit :

Sl.No.	Nature of work	Unit of measurement	No. of cases
1.	Company (all categories)	Cases	145
2.	Non-company (Category I cases above Rs. 25,000/-)	Cases	325
3.	Categories II & III (cases between Rs. 7,600 & Rs. 25,000/-)		
	a) without grant of hearing u/s 143 (1) I. T. Act	Cases	1255
	b) with grant of hearing u/s 143 (3) I. T. Act	Cases	870
4.	Categories IV & V (cases below Rs. 7500/-)		
	a) without grant of hearing u/s 143 (1) I. T. Act	Cases	2755
	b) with grant of hearing u/s 143 (2) I. T. Act	Cases	1675
5.	Other taxes e. g. wealth Tax, Gift Tax & Estate Duty.	Cases	1554
6.	Salaries	Cases	5780

8.6. So far as the norms of work for IAC (Assessment) are concerned, the Ministry have stated :

“I.A.Cs are required to necessarily pass orders by themselves in cases of income over Rs. 5 lakhs. They were expected to dispose of 25 main assessments plus linked cases in a year. This norm has been revised on 23rd May 1980 to 50 main cases alongwith linked cases for IACs having exclusive jurisdiction u/s 125 and 35 plus linked cases for IACs having concurrent jurisdiction u/s 125A in a year.

A monthly report has been prescribed for watching their performance in the Board's office by Board's letter dated 10 June, 1980. As per reports received for the financial year 1979-80, they had completed 3,181 assessments raising gross demand of Rs. 24,035 lakhs. They have also initiated penalty proceeding for concealment during 1979-80 in 590 cases.

From the reports received in regard to results of the assessments done by IACs (Assessment), it was found that upto October, 1980 additions to the extent of more than Rs. 25 crores were made in 54 cases by IACs (Assessment).

The institution of I.A.Cs (Assessment) is in its initial stages and it is expected that in the years to come, it will give more fruitful results.”

8.7. According to the Ministry, the number of assessments that should have been completed during 1978-79 on the basis of the prescribed standards is as follows :

a) Time barring assessments	. . .	6,47,959
b) Company assessments with income above Rs. 25,000/-	. . .	17,353
c) Non-company scrutiny assessments with returned/last assessed income of Rs. one lakh and above	. . . . .	42,144
d) Search & Seizure cases		
i) assessments connected with searches completed on or before 31-3-1977	. . .	5,518
ii) Assessments in other search cases	. . . . .	1,064
e) Summary assessments	. . . . .	24,16,072
f) Salary assessments	. . . . .	4,92,077

(Targets are laid down viewing the work-load in various cross-sections and there is a certain amount of overlapping therein).

8.8. In reply to a question if the increase in the number of assessing officers should not have resulted in improved performance on assessment front, the Members, CBDT stated in evidence :

“(The increase was . . . . . ) 250 ITOs. Out of 250, 100 were leave reserves. And out of 150, as many as 87 posts of the ITOs were upgraded to IACs, with the result that the net increase between 1977 and 1978 was very nominal.”

8.9. He added :

“There was a very nominal increase in the number of ITOs who were required to do assessment work. On the basis of the SIU's study which was conducted more than 10 years back, we found that if we were to dispose of these 40 lakh assessments, we would require nearly 1300 ITOs more. But on account of constraints on public expenditure and economy drive, these 1300 posts of ITOs based on the recommendation of the SIU's Report which has become outdated now, could not be filled.”

8.10. He further added:

“...And even for disposing of 33 lakh assessments if we apply those very norms to which I do not subscribe because those are not the latest norms, we needed 3208 ITOs. We had in position only 2747 ITOs. It means that some aspect of the work had to be neglected or relegated to the background. That is how, we had fixed the norms and the target disposal, at 30 lakhs.”

8.11. In regard to the validity of the work-norms prescribed by Staff Inspection Unit, the representative of the Ministry stated during evidence:

“With all the changes brought out after the Works Study which has been conducted in 1969, the law has become complex and to put the same expectation for disposal from an Income-tax Officer is not proper. For certain category of cases they have fixed norm at 325 cases per year. Obviously, with all these changes it should be revised downwards with the result that the number of officers required will go up.”

8.12. As against the previous years' performance of 40,43,813 disposals, the Action Plan for 1978-79 had put the target for completion of 36,12,187 assessments. The actual performance however went down to 33,12,099 assessments representing a shortfall over the Action Plan targets by 10 per cent. On the other hand, there was increase in the number of assessing I.T.Os from 2622 in 1977-78 to 2747 in 1978-79. The number of assessments per I.T.O on an average has come down from 1533 in 1976-77

and 1,542 in 1977-78 to 1,205 in 1978-79, representing a shortfall of about 25 per cent in average performance.

8.13. During evidence, the Committee, therefore, desired to know whether the available staff were being utilised to the optimum level for liquidating the arrears of assessments. The Member, CBDT replied:

“Now, so far as the existing staff are concerned, my reply is that we rather overstraining them, not only we are utilising them most effectively but, in fact, if I may be permitted to say with utmost respect, we are taking more work from them than the Staff Inspection Unit has prescribed for them.”

He added:

“There is a shortage of Ministerial staff, there is a shortage of notice-serves. There is a shortage in lower levels. They all affect the efficiency of the Department. Now, we on the basis of a work study conducted by the DOMS in April 1978 determined a shortage of ministerial staff which was very heavy more than 10000 or 12000. This work study conducted by the Directorate of OMS was subjected to a detailed scrutiny by the Staff Inspection Unit which recommended an addition of 5000 more staff immediately. Now, we are trying to pursue this proposal with the (Department of Expenditure) and we do hope that we will succeed. That would, to a large extent, prove that the existing staff that we have got is not only being utilised fully but more than that.

8.14. In regard to augmentation of staff strength, the Finance Secretary stated:

“This problem of increasing the staff of the Department has to be looked at from two angles. One is, of course, that we must have sufficient strength at the officer level so that the pace of disposal of assessments is accelerated. At the same time, we have also to take steps to simplify laws . . .”

8.15. He added:

“the clerical requirements of the Income-tax Department had been neglected over a long period of time. Therefore, the Staff Inspection Unit carried out a study and, based on that the Board qualified the requirements of clerical staff required and they came up with a massive proposal. I was myself very diffident. I have to get clearance from my colleague in the Expenditure Department. I cannot sanction the staff on my

own. So, I had a discussion with my colleague in the Expenditure Department. We also had a discussion with the Minister. Naturally, we felt that we could not sanction so much staff in our own Department. So, we agreed that we will sanction only half the staff and we will sanction the other half next year. . . . So far as additions to staff at higher level are concerned, I would like to make two submissions. One is, as the hon. Members of the Committee may be aware, some changes were made in 1975 or so in the Income-tax law. As a result of that, in many cases, the ITO had to refer the case to the Inspecting Assistant Commissioner before finalising the assessment. In order to enable the Department to deal with such cases—when they go in appeal, it will not be proper for an Appellate Assistant Commissioner to hear appeals—we took a deliberate decision and the Act was also amended to create a new category of Commissioner of Income-tax (Appeals). We sanctioned a very large number of posts of Commissioners. A new category was brought into existence. This accounts for the increase in the staff strength of the Department. Otherwise, by and large I should say, this is a Department where the increase in staff both at the clerical level and at the officers level has been contained within very reasonable limits. If anything, we are parsimonious in regard to the sanctioning of staff in our Department.

. . . I agree that the legitimate requirements of a revenue department have to be met. In fact, when they ask for staff on the non-plan side, we do not generally agree, we resist. But so far as the revenue department is concerned, once a case is made out, we agree to it. . . .”

8.16. He further added:

“ . . . whether some increases in staff strength is necessary at the initial assessment level is an important issue. I shall go into it. This is a very legitimate task which you have set before us. It is not enough if we concentrate only on clearing arrears in regard to wealth-tax cases, in regard to penalty cases and the like. We can do it for a year or two, try to trim the task to the manpower resources available. But at same stage, if it becomes necessary, we will have to augment the manpower at the initial level so that we also make a dent on the overall pendency. I can give you an assurance that I shall go into this question. I will not accept what the Director, O & M or the CBDT recommend. We shall go into it critically as we examine the proposals of other Departments. Whatever increase is necessary at the initial level of assessment in order



to bring down the overall pendency from where it has slipped down, will be agreed to.”

8.17. In reply to a question if it was not equally necessary to remove the built-in weaknesses of the Department and to increase the efficiency, the witness stated:

“We have to improve our organisational methods, we have to properly motivate our officers and also increase the strength of officers if it becomes necessary to see that the overall pendency is brought down.”

8.18. The note prepared by DOMS in March 1978 outlining the proposals of the Action Plan 1978-79 for consideration of Chairman, CBDT *inter alia* stated:

“This weakness of the Action Plan targets has also been examined by this Directorate from the manpower angle. By applying the SIU norms, it was found that if all the objectives that were specified for the Action Plan for 1977-78 were to be achieved in 1978-79 also, the number of ITOs required will swell to 4139 as against the available strength of 2742 ITOs. This would highlight firstly, that there is a definite shortage of manpower according to the SIU norms and secondly, that due to the shortage of the manpower the quality of follow-up work and other distortions of the work done are a necessary corollary.”

8.19. The Committee desired to know the action taken by Government on the proposal for additional staff projected by the DOMS in March/April 1978. In a note, the Ministry have stated:

“The D.O.M.S. letter dated 30-3-78, was a paper relating to an internal exercise for formulating the action plan for 1978-79. As part of the exercise, the work load for the year was projected and the manpower requirement, if the S.I.U. norms for assessment work were applied, was also worked out. . . . The D.O.M.S. also made a separate working of manpower of effective cases and basis of the plan targets for disposing of effective cases and worked out the additional requirement of ITOs. at 208. The D.O.M.S. had suggested in their letter that this manpower should be found by approving the proposal for creation of 206 leave reserve Group B posts which was then pending. Subsequently, on the basis of this proposal, 150 leave reserve posts were sanctioned under F. No. A. 110013/41/77-Ad. VII dated 16-9-78.

It may also be mentioned that the D.O.M.S. made an assessment of requirement of clerical staff for assessment and collection work

and arrived at a shortage of 18034 on the basis of the work load for 1976-77. The S.I.U. after test-check agreed that there was a shortage of 5000 on the basis of the work-load for 1976-77. The S.I.U., however, reduced the requirement to 3930 on the basis of the actual disposals in later years even though the reduction in disposal was partly due to shortage of staff. This was further reduced to 3475 by setting off certain surplus posts in other areas and formal proposals for sanction were sent. As an economy measure a 50 per cent cut was made and creation of 1737 clerical posts has been agreed to in principle, but formal sanction is yet to be received.'

8.20. In a further note on the requirement of ITOs based on the actual number of assessments completed in 1978-79 *vis-a-vis* the norms prescribed by the S.I.U., the Ministry have stated:

"In connection with the annual action plans, the Board prescribes annual disposal targets in the areas of assessment, collection, etc. In regard to assessment separate targets are laid down for different types of scrutiny assessments. As regards summary assessments, specific numerical disposal targets have been laid down for each Commissioner's charge. These targets are however not based on any work or method study and they cannot therefore, be compared with the norms laid down by the Staff Inspection Unit. The objective of the annual action plans is to achieve optimum results in the most important areas with the available manpower.

... In applying the S.I.U., norms the following facts have to be kept in mind.

- (i) The S.I.U. has not fixed any norms for disposal of investigation cases in Central Circles and Special Circles. Such cases and the number of I.T.Os. deployed on them will have to be excluded from the working;
- (ii) No norms have been fixed by the S.I.U. for surtax cases and set aside assessments which pose special problems. During the year 1978-79, 994 Sur-tax assessment and 17648 set aside assessments were disposed of. Some adjustment is necessary in respect of such cases.
- (iii) The norms of 9780 prescribed by the S.I.U. for salary cases applies only to salary cases disposed of under section 143(1). These norms cannot be applied to non-salary assessments under section 143(1) for which the S.I.U. has prescribed separate norms of 1255 in respect of cases with income of Rs. 7500/- and above and 2755 in respect of cases below Rs. 7500/-. The summary cases disposed of include less than 5 lakhs of salary assessments.

2. A fresh working of the manpower requirement on the basis of S. I.U. norms as applied to the disposal during 1978-79 is given in Appendix III. From this, it may be seen that 3237 officers would have been required to be deployed if S.I.U. norms had been followed, whereas actually only 2747 officers were deployed. There is, therefore, no shortfall in performance. On the other hand, in the light of the shortfall in manpower, the performances is higher than the norms fixed."

8.21. The Committee desired to know how many ITOs had been actually engaged on assessment work and how many had been assignee other work such as administrative, tax recovery, estate duty, internal audit functions etc. The Ministry have accordingly furnished the following information:

The total sanctioned strength of I. T. Os Class-I and Class-II on 30-6-80 is as under:—

Income tax officers (Class-I)	1501	} Total : 3703
Income-tax Officers (Class-II)	2202	

Out of the total strength of 3703, the following number of I.T.Os. are employed on duties other than assessment and collection work.

1. I. T. Os. deployed at Hqrs. on and, judicial, Technical functions etc. (including 20 in administration in C. I. T's H. Q.).	160
2. Junior A. Rs.	58
3. I. T. Os.	94
4. Assistant Directors	78
5. Assistant Director (Intelligence)	73
6. P. R. Os.	19
7. I. T. Os. Foreign Section	5
8. I. T. Os. administration in wards	35
9. T. R. Os.	223
10. C. I. B.	32
11. Probationers under training	180
Total:	957

Thus, out of a total of 3703 ITOs 957 were on non-assessment work in specific important areas. The number of ITOs available for assessment work was only 2746. The number actually deployed on assessment fluctuates on account of leave, probationers becoming available for posting etc."

8.22. The sanctioned strength of ITOs has risen from 3392 as on 1.4.1977 to 3742 as on 1.4.1978 and 3746 as on 1.4.1979. The sanctioned strength of IACs has gone up from 290 to 294 and still further to

377 during the above period. The number of Commissioners of Income Tax rose from 73 as on 1.4.77 and 1.4.78 to 156 as on 1.4.79. Thus the total increase during this period has been of 354 ITOs, 87 IACs and 83 CSIT. The number of ITOs actually engaged on assessment functions was 2575 as on 1.4.77, 2622 as on 1.4.78 and 2747 as on 1.4.79, i.e. a net increase of 172 in two years. In addition, 63 posts of IAC's (Assessment) were sanctioned in October 1978 to assess cases having income of Rs. 5 lakhs and above, search and seizure cases, foreign company cases etc.

8.23. The Committee understand that by applying the norms of work laid down by the Staff Insection Unit in 1969, it was found (March 78) that if all the objectives that were specified for the Action Plan for 1977-78 were to be achieved in 1978-79 also, the number of ITOs required would be as high as 4,139.

8.24. The Committee have also been informed that the CBDT prescribes annual disposal targets in the areas of assessment, collection etc., the objective being achievement of optimum results in the most important areas with the available man-power. These targets are however, not based on any work or method study and they cannot, therefore, be compared with the norms laid down by the S.I.U. Moreover, the S.I.U. have not fixed any norms for disposal of investigation cases in Central and Special Circles as well as for surtax cases and set aside assessment which pose special problems.

8.25. The exercise done by the Ministry to work out the manpower requirements on the basis of S.I.U. norms applied to the actual disposal in 1978-79 indicates that as many as 3237 ITOs would have been required if the SIU norms had been followed, whereas actually only 2747 officers were deployed i.e. there was a shortfall of 490. According to the Ministry, this is indicative of the fact that the performance has been higher than the norms fixed.

8.26. The Committee note the contention of the representative of the Ministry that the norms laid down by the S.I.U. more than 10 years back have now become outdated and the law having become more complex, it would not be fair to expect the same disposal from the ITOs. The Committee nevertheless consider that measures such as the gradual extension of the summary assessment scheme to cover cases upto Rs. one lakh, creation of posts of IACs (Assessment) etc. should have enabled the Department at least to sustain the previous years' performance. The heavy shortfall of 7 lakh assessments during 1978-79 as compared to 1977-78, despite an increase of 172 in the strength of ITOs actually engaged in assessment function, and creation of 63 posts of IACs (Assessment) would, therefore,

indicate that there has been a marked deterioration in the efficiency of the Department.

8.27. It is essential that a fresh works and methods study be made to ascertain the manpower necessary to efficiently administer the direct tax laws. The complaint of the Department that it is under-staffed needs to be properly evaluated. If the grievance is found to be justified on the basis of the study, Government should provide adequate number of Income-tax Officers, Inspecting Asstt. Commissioners, Appellate Asstt. Commissioners and Commissioners of Income-tax. The exact number of Appellate Asstt. Commissioners required for expeditious disposal needs to be examined because a large number of appeals have been pending finalisation in the Department which is injurious to the interest of revenue. The Committee are of the opinion that the Department is expected to collect revenue, with speed and efficiency which are indispensable pre-requisite for maximising revenue collections. The Government must not, therefore, labour under a false sense of economy in not providing adequate manpower if it is needed to optimise speed and efficiency.

## *I. Incentive Scheme for outstanding performance in assessment work.*

9.1. As a result of Public Accounts Committee's recommendation to improve the performance of assessment work and in order to encourage the Income-tax officers to give their best, an Incentive Scheme for quality work in assessment has been introduced from 1st April 1976. The Scheme contemplates 20 cash awards, 8 of Rs. 2,000 each no. 12 of Rs. 1,000 each to be given annually to the Assessing Officers whose assessments are rated to be the best of the year.

9.2. According to audit the information regarding the number of beneficiaries and the amount disbursed is 'nil' for the years 1977-78 and 1978-79.

9.3. The Committee desired to know why the scheme had remained inoperative during the years 1977-78 and 1978-79. In a note, the Ministry have stated:

"The incentive scheme envisages that any ITO who desires to compete for a reward under the scheme should submit one assessment to the IAC which he considers to be his best. The I.A.C. has to conduct an inspection of the Officers work during the relevant year and out of the various assessments submitted by ITOs, forward two best assessments to the Commissioner alongwith the Inspection reports and the report to the internal audit which is also required to be conducted in respect of I.T.Os aspiring for the reward. Out of the various assessments submitted to the Commissioner, the best assessment selected by him is forwarded to the Board for being considered for the reward.

It is felt that the requirements regarding inspection by IACs as well as internal audit have created a natural fear that mistakes may be noticed resulting in the necessity of rectification or re-opening with the resultant consequences. It is perhaps for this reason that during the financial year 1977-78 and 1978-79 no assessments were forwarded by the ITOs to the Board for this purpose. Accordingly no reward could be given under the Incentive Scheme for high quality work in the field of assessment. The Commissioners have been requested to examine the cases completed during the financial year 1977-78 and 1978-79 and send the same to the Board. Similarly the assessments

completed during the years 1979-80 and 1980-81 will also be examined for the purpose of reward. A revision of the scheme is also under consideration.”

**9.4. The incentive scheme designed to encourage the ITOs to give of their best does not appear to have enthused the Department. According to the Ministry, the reason perhaps is that the ITOs are afraid that mistakes might be detected during inspection by IAC or during scrutiny by Internal Audit. Since the reason for introduction of the scheme is precisely to encourage quality work, it is difficult to see what other criteria could be introduced and indeed how a really competent and conscientious officer could feel discouraged or hesitant to meet the required stipulations. In any case, there is need for reviewing the whole matter.**

## *J. Simplification of Income-tax Act*

10.1. During informal discussions with the Commissioners of Income Tax in the course of their tours, the Study Groups of the Public Accounts Committee were informed that 'the Income Tax Act, 1961 had been subjected to a large number of amendments which had made it very complicated and difficult to administer. It was time that the Act as a whole was restructured. Commenting upon the growing complexity of the income-tax law which had a vital bearing on the output of the ITOs, the Member CBDT, stated in evidence:—

"Since 1969, I have culled out from the Income Tax Act, the changes, and the complexities in the Income Tax Act which have been introduced and the new sections which have been added. I have classified them into four categories—legislative changes, changes in procedure, increase in statistical work and work relating to other matters like increase in search and seizure and such other enforcement activities. If we see all those new sections, under the first head I have listed 9 such changes. Under the "new tax/concessions" that we have given, I have listed 29 such changes. Under the procedural changes I have listed 6 changes, under the important changes in the Wealth-tax Act, the number is 4. Under the Gift-tax Act there are 3. . . . With all these changes brought about after the work study which was conducted in 1969, the law has become more complex and to have the same expectation for disposal from an income-tax officer, would not be proper."

10.2. Elaborating the views of the Government in this behalf, the Finance Secretary stated:

"Every budget is also an instrument for implementing the policies of the Government. Fortunately or unfortunately, the Income-tax law has become an instrument for the fulfilment of certain social and economic objectives, considered valid by the Government, for the time being. If one were to say that in the process the law becomes complicated, that is one aspect of the matter. Secondly, however careful we might be, there can be certain lacuna—such as drafting mistakes, what we intended to achieve may be set at naught and we have got to take some remedial action. All this adds to the complexity of the income-tax law, if I may say so. We grapple with this problem perio-



dically. There are other objectives side by side of tackling evasion of taxes, of giving incentives for savings and for investments and so on, of giving encouragement for the starting of industries in backward areas etc. Each one of these and other kinds of objectives is valid, and has to be taken care of. In the process, the law becomes complicated. But we are aware of the need to simplify the Income Tax Act. We will have to undertake this exercise periodically, so that we remove the provisions which have outlived their usefulness. I agree that it is the wearer of the shoe who knows where it pinches. It is the Commissioner in this case, who experiences the difficulty and not we ourselves who formulate the legislation."

10.3. Asked to state whether Government had got any evaluation done to ascertain whether the various amendments made in the Income-tax law over the years had served the intended purpose and to what extent they had really subserved the socio-economic objectives of the Government, the Finance Secretary stated:

"As you are aware, one recent study has been made and that was by the Dandekar Committee limited to the issue—whether the various financial incentives provided under our direct tax laws as well as the indirect tax laws—have fulfilled their objectives or not or whether some further incentives can be provided through the mechanism of these laws. . . . You might recall that while the Government has not accepted all the recommendations of this Committee, there is one particularly significant recommendation of this Committee namely that the existing provisions relating to tax holiday in the income-tax law have the effect indirectly of imparting a capital bias to investment decisions and, therefore, we should have a somewhat neutral criterion for determining the eligibility for tax holiday. This particular recommendation has been accepted and implemented.

Then, I am not able to say straightaway whether the impact of tax incentives is being examined by them—there is a committee headed by Mr. Sivaraman. That was going into the question of redressal of regional imbalances. As you know, our income-tax law embodies some provisions for promotion of industries in a backward area. . . . May be, Sivaraman Committee may go into this question—whether the provision in the income-tax law for promotion of industry in backward areas has served its purpose or not. . . ."

"I will give one other example. Sec. 72A. This was incorporated in 1977 to promote amalgamation of sick units with healthy units. Government felt, and perhaps rightly, that instead of the government being obliged to take over sick units, in the interests

of production and employment, it will be much better if tax incentives are provided to enable healthy units to merge with sick units. Now, there is screening committee looking into this. Frankly speaking, so far this Sec. 72A has not come upto the expectations we entertained of it when we introduced it. But hardly two years have gone. We cannot draw any premature conclusions."

10.4. The witness, however, conceded:

"I cannot readily say that a comprehensive evaluation of these concessions has been made while there have been piecemeal studies of specific provisions. I would respectfully submit that it is not our claim that we have been able to solve all the problems. I do not think any government has claimed to have solved all the problems or the economic ills to which the Member referred just now. There are still wide disparities in incomes; regional imbalance is there; unemployment problem is there. All these problems cannot be solved only by fiscal laws. That is why, I say that the fiscal laws have to assist in fulfilling the objectives that are embodied in our programmes. No doubt there may have been lapses in the formulation of the plan. There may be some deficiencies in the implementation of the plans which have led to the various maladies which the Hon'ble Member has mentioned. How can we, to that extent lay the blame for all this at the doors of the income-tax act is the only question. It is also to be conceded that the Income-tax Act has had the effect of mitigating the inequalities to some extent. For example, there is some deficiency in our public distribution system. As a result of all this, black money is generated, the inequality and the gap has got widened. Therefore, it is not possible to find a solution to all these difficulties through the Income Tax Act. So, it is not the claim of the department which has been placed in charge of tax administration that all these economic objectives can be achieved through the fiscal laws or fiscal policies only. The only thing is that it is possible that, in furthering of some of the objectives, it may accelerate or decelerate the achievement of some of the objectives. That is all the claim that is being made. The use of fiscal instrument for achieving the ends cannot be wholly ruled out."

10.5. Summing up the position, the Finance Secretary stated:

"...I would respectfully submit that tax laws are too powerful an instrument for promoting socio-economic objectives and no

government is likely to refrain from using the tax instrument for promoting its cherished socio-economic goals.”

10.6. Government had appointed a Committee of experts, namely Direct Tax Laws Committee (popularly known as the Chokshi Committee) in June, 1977 *inter alia* to examine and suggest legal and administrative measures for simplification and rationalisation of the direct tax laws. The Committee desired to know whether any efforts were being made to bring forward comprehensive legislation. The Finance Secretary stated:

“So far as legislation is concerned, the Finance Minister himself has indicated in Parliament that it is his intention to bring forward comprehensive legislation. Based on the Law Commission’s report this Act, of 1922 was replaced by a comprehensive Act in 1961. The Chokshi Committee also made recommendations. We have examined them at the official level and taken a view on most of them. Many of the recommendations have also been cleared at the Ministerial level. But before we could take action to formulate legislation, there was change of Government. Now the idea is to examine not only the Chokshi Committee’s recommendations but also those of the Wanchoo Committee which had not been acted upon yet and also keeping in view the over-riding need for simplification, bring forward comprehensive legislation on income-tax. This is what our Minister has in view and at the officials’ level it shall be our endeavour to see that his ideas are translated into action.”

10.7. One of the factors contributing in some measure to the delay in finalising the assessments is undoubtedly the cumbersomeness of various tax laws. As a continuously developing tax law, the Income-tax Act has been repeatedly amended during the last two decades with a view to plugging the various loopholes leading to evasion of taxes, to combating the evil of black money and often to extending the areas of concessions intended for planned development of the economy with the result that it is exiled from simplicity and coherence. Various factors relating to the economic needs of the country, budgetary requirements, incentives for investment of capital are taken into account at the time of formulation of Budget proposals. As far back as in 1967-68, the Public Accounts Committee had, in their 17th Report (4th Lok Sabha) expressed the view that the present system of levy of taxes was ‘onerous and complicated’ and that the collection of taxes had not been efficient.

10.8. In 1977, Government set up a Committee of experts, known as Direct Tax Laws Committee (Chokshi Committee) to recommend measures to simplify and rationalise the direct tax laws with a view to making them readily comprehensible to tax payers, reducing litigation and thus subser-

ving the interests of the national economy. The final Report of the Chokshi Committee was submitted to Government in September, 1978. The Committee have been informed that the recommendations of the Chokshi Committee are under examination alongwith such of the recommendations of the Wanchoo Committee, which had not been acted upon as yet. Keeping in view the over-riding need for simplification, Government propose to bring forward a comprehensive bill on direct taxes.

The Committee have observed that numerous amendments made to the direct tax laws were necessitated on account of faulty drafting. Continuous spate of amendments make the law incomprehensible and the job of the assessing officer exceedingly difficult. The Committee are of the view that frequent amendments for purposes of plugging the loopholes become counter-productive in so far as instead of helping the Government to augment its revenue, they provide scope for easy evasion and avoidance because of the increased complexity of law implicit in frequent amendments. The Committee, therefore, recommend that while the proposed comprehensive enactment is prepared, so as to simplify the direct tax laws both with reference to procedural and substantive laws, particular attention is paid to carefully draft the same. It would obviate the necessity of amendments year after year. Care should also be taken that the entire enactment is made more methodical so as to be capable of being comprehended and understood by the tax payers.

10.10. While proposing retrospective legislation, Government needs to bear in mind that it is likely to cause hardship to honest and unsuspecting assesseees as well as is apt to adversely affect the credibility of the Government.

NEW DELHI;

March 19, 1981

Phalguna 28, 1902 (Saka)

CHANDRAJIT YADAV,

*Chairman,  
Public Accounts Committee.*

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## **APPENDICES**

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**APPENDIX I**

(Vide paragraph 2·9)

**STATEMENT SHOWING THE TOTAL ARREAR DEMAND OF RUPEES IN TEN LAKHS AND ABOVE AS ON 31-3-1978 OUTSTANDING AGAINST EACH MONO-POLY HOUSE.**

Name of the assessee		Demand as on 31-3-1978		
		Net arrear	Tax not fallen due	Gross
1	2	3	4	5
<b>A. C. C. GROUP</b>				
1.	M/s. Associated Cement Co. Ltd.	11·70	..	11·70
<b>APEEJAY GROUP</b>				
2.	Amin Chand Payare Lal		11·20	11·20
<b>BANGUR GROUP</b>				
3.	Digvijay Cement Co. Ltd.		10·98	10·98
<b>BIRLA GROUP</b>				
4.	M/s. Bharat General Textiles .	11·57	..	11·57
5.	Birla Jute Mfg. Co. Ltd.	14·50	22·58	37·08
6.	M/s India Steamship Co. Ltd.		21·33	21·23
7.	New Swadeshi Mills of Ahmedabad Ltd. .	101·74		101·74
8.	Orient paper Mills Ltd.		143·05	143·05
<b>I.C.I. GROUP</b>				
9.	Ciba Geigy of India Ltd.	84·82		84·82
<b>J.K. SINGHANIA GROUP</b>				
10.	J. K. Udyog Ltd. .	19·06		19·06
11.	J. K. Synthetics Ltd.		73·87	73·87

1	2	3	4	5
<i>KAMANI GROUP</i>				
12.	Jaipur Metal & Elect. Ltd.		10·70	10·70
13.	M/s. Kamani Metallc Oxidas P. Ltd.		12·59	12·59
14.	Kamani Engg. Corp. Ltd.		254·18	254·18
15.	M/s, Kamani Bros. (P) Ltd.	47·32		47·32
<i>KILACHAND GROUP</i>				
16.	M/s, Fort Properties Ltd.	15·12		15·12
<i>KAPADIA KILLICK GROUP</i>				
17.	Magenlal Chagan Lal P. Ltd		67·51	67·51
<i>KHATAU GROUP</i>				
18.	Colour Chem. Ltd.		40·10	40·10
19.	Siemens India Ltd.	25·76		25·76
<i>MAONETLL MAGOR GROUP</i>				
20.	Assam Co. Ltd.		14·11	14·11
<i>MAHINDRA &amp; MAHINDRA GROUP</i>				
21.	Mahindra & Mahindra Ltd.	22·22		22·22
<i>MODI GROUP</i>				
22.	Modi Industries Ltd.	105·76		105·76
23.	Modipon Ltd.	407·08	4·28	411·36
<i>R. N. GOENKA GROUP</i>				
24.	Express News paper Ltd.	86·08		86·08
25.	Indian Express (P) Ltd. (Madurai)	29·67		29·67
26.	Indian Express (P) Ltd. (Bombay)		18·71	18·71
27.	M/s, Traders & Traders		12·98	12·98
<i>SARABHAI GROUP</i>				
28.	Ahmedabad Calico & Ptg. Co. Ltd.		67·55	67·55
29.	Suhrid Geigy Ltd.		20·63	20·63
30.	Sarabhai Technological Development Syndicate (P) Ltd.	3·24	7·06	10·30

1	2	3	4	5
<i>SESHASAYEE GROUP</i>				
31.	Seshasayee Papers & Boards Ltd.	34·95		34·95
<i>SOORAJMALL NAGARMALL GROUP</i>				
32.	M/s. Asiatic Oxygen Ltd.	23·29		23·29
33.	M/s. B.I.C. Ltd.		62·72	62·72
34.	Elgin Mills Ltd.		30·84	30·84
<i>S. JAIPURIA GROUP</i>				
35.	Swadeshi Cotton Mills Co. Ltd.		73·42	73·42
<i>T.V.S. IYNGAR GROUP</i>				
36.	Brakes India Ltd.		14·08	14·08
37.	Wheels India Ltd.	14·95		14·95
<i>TATA GROUP</i>				
38.	Tata Iron & Steel Co. Ltd.	..	17·91	17·91
39.	Voltas Ltd.	..	14·98	14·98
<i>THIAGARAJA GROUP</i>				
40.	Sree Rajendra Mills Ltd.	16·48	0·72	17·20
41.	Saroja Mills Ltd.	13·00	5·10	18·10
<i>UNITED BREWERIES GROUP</i>				
42.	Carew & Co. Ltd.	76·29	..	76·29
43.	Hoechst Pharmaceuticals Ltd.	..	24·39	24·39
<i>UNION CARBIDE GROUP</i>				
44.	Union Carbide India Ltd.	..	49·69	49·69
<i>WALCHAND GROUP</i>				
45.	Hindustan Construction Co. Ltd.	..	10·32	10·32



Statement showing the total arrear Demand of Rs. Ten Lakhs and above as on 31-3-1979 outstanding against each monopoly House

(Amounts in lakhs of Rupees)

S. No.	Name of the Company	Demand as on 31-3-1979		
		Tax in arrears	Tax not fallen due	Gross
1	2	3	4	5
<b>BANGUR</b>				
1.	Maharaja Shree Umaid Mills Ltd. . . . .		18.07	18.07
2.	Shree Madhusudan Mills Ltd. . . . .	..	16.70	16.70
		..	34.77	34.77
<b>BIRLA</b>				
3.	Gwalior Rayon Silk Mfg. Co. Ltd. . . . .	..	115.45	115.45
4.	India Steamship Co. Ltd.x. . . . .	..	35.62	35.62
5.	Jiyajeerao Cotton Mills Ltd. . . . .		33.63	33.63
6.	National Engg. Industrial Ltd. . . . .	17.30	..	17.30
7.	Texmaco Ltd. . . . .	21.53		21.53
8.	M/s. Mysore Cement Ltd. . . . .	..		..
9.	M/s. Jayshree Tea and Industries Ltd. . . . .	..		..
10.	M/s. Century Spg. and Mfg. Co. Ltd. . . . .	..		..
		38.83	184.70	223.53
<b>BHIWANDIWALA</b>				
11.	A.H. Bhiwandiwala . . . . .	..		
<b>CHOGULE</b>				
12.	M/s, Chogule Brothers . . . . .	..		..
<b>J.K. SINGHANIA</b>				
13.	J. K. Synthetics Ltd. . . . .	..	153.27	153.27
14.	J. K. Cotton Spg. and Wvg. Mills Ltd. . . . .	24.95	60.98	85.83
15.	Straw Products Ltd. . . . .	..	64.06	64.06
		24.85	278.31	303.16

1	2	3	4	5
<i>JAIPURIA</i>				
16.	Swedeshi Cotton Mills Co. Ltd. . . .	0.43	84.76	85.10
17.	M/s Swadeshi Mining K. and Mfg. Co. Ltd. .	..	..	..
		0.43	84.67	85.10
<i>I.C.I.</i>				
18.	The Alkali Chemical Corpn. of India Ltd. .	..		..
19.	M/s Indian Explosives Ltd. . . . .		..	..
<i>KAMANI</i>				
20.	Jaipur Metals and Electrical Ltd. . . .	15.38		15.38
21	Kamani Engg. Corpn. Ltd. . . . .		21.00	21.00
22	Kamani Metallic Oxides Ltd. . . . .	12.61		12.61
23	Kamani Metal and Alloys Ltd. . . . .	97.39		97.39
24	Kamani Bros. Pvt. Ltd. . . . .			..
		125.38	21.00	146.38
<i>KAPADIA (KILLICK)</i>				
25.	Maganlal Chaganlal Pvt. Ltd. . . . .	67.73	41.96	109.69
26.	Nav Jiwan Mills Ltd. . . . .	..		..
		67.73	41.96	109.69

1	2	3	4	5
<i>KASTURBHAI LAL BHAI</i>				
27.	Atul Products Ltd.	. . . . .	26.45	26.45
<i>KILA CHAND</i>				
28.	Synthetics K Chemicals Ltd.	. . . . .	..	..
<i>KIRLOSKAR</i>				
29.	Kirloskar Oil Engines Ltd.	. . . . .	10.61	10.61
<i>KOTHARI</i>				
30.	M/s Kothari (Madras) Ltd.	. . . . .	..	..
<i>MAFATLAL</i>				
31.	Hoechst Dyes & Chemicals Ltd.	. . . . .	11.49	11.49
<i>MODI</i>				
32.	Modi Pon Ltd.	. . . . .	5.00	393.11
33.	Modi Industries Ltd.	. . . . .	19.15	37.15
			24.15	430.26
			454.41	
<i>M.S. OBEROI</i>				
34.	East India Hotels Ltd.	. . . . .	12.48	12.48
<i>NAIDU G.V.</i>				
35.	Lakshmi Machine Works Ltd.	. . . . .	20.11	20.11
36.	South India Viscose Ltd.	. . . . .	97.71	104.46
			97.71	124.57
			222.28	
<i>R.N. GOENKA</i>				
37.	Express Newspapers (P) Ltd.	. . . . .	17.58	..
38.	Indian Express Newspapers (Bombay) (P) Ltd.	. . . . .	..	56.49
			17.58	56.49
			74.07	

1	2	3	4	5
<i>RAUNAQ SINGH</i>				
39.	Bharat Steel Tubes Ltd. . . . .	234.51	169.70	404.21
40.	M/s Raunaq & Co. P. Ltd. . . . .	..		..
		234.51	169.70	404.21
<i>SARABHAI</i>				
41.	Suhrid Geigy Ltd. . . . .	—	11.78	11.78
<i>SHRIRAM</i>				
42.	Jay Engg. Works Ltd. . . . .	2.06	24.98	27.04
43.	Shri Ram Piston & Rings Ltd. . . . .		11.00	11.00
		2.06	35.92	38.04
<i>SHRITANS PRASAD JAIN</i>				
44.	Dharangadhara Chemicals Works Ltd. . . . .	20.69	..	20.69
<i>SOORAJMULL NAGARMULL</i>				
45.	British India Corpn. Ltd. . . . .	..	250.80	250.80
46.	Canpore Sugar Works Ltd. . . . .	..	64.61	64.61
47.	Eligin Mills Co. Ltd. . . . .	..	20.67	20.67
		..	336.08	336.08
<i>T.V.S. IYENGAR</i>				
48.	Brakes India Ltd. . . . .	2.40	8.86	11.26
49.	Sundaram Clayton Ltd. . . . .	20.28	9.65	29.93
50.	Wheels India Ltd. . . . .	30.0	19.29	22.89
51.	Singer Sewing Machine Co. Ltd. . . . .	..	..	..
		25.68	38.40	64.08

1	2	3	4	5
<b>THIAGARAJA</b>				
52.	East India Corpn. Ltd. . . . .		11.05	11.05.
53.	Saroja Mills Ltd. . . . .		11.64	11.64
54.	Rajendra Mills Ltd. . . . .	15.39	0.26	15.65.
		15.39	22.95	38.34
<b>TATA</b>				
55.	Tata Engg. & Locomotive Co. Ltd. .			
<b>OIL INDIA</b>				
56.	M/s Castrol Ltd. . . . .			
<b>UNITED BREWERIES</b>				
57.	Carow & Co. Ltd. . . . .	16.15	..	16.15
58.	Hoechst Pharmaceuticals Ltd. . . . .		30.26	30.26
		16.15	30.26	46.41
<b>UNION CARBIDE</b>				
59.	Union Carbide India Ltd. . . . .		49.69	49.69.
<b>V.S. DEMPO</b>				
60.	V.S. Dempo & Co. Ltd. . . . .			
<b>GHIA</b>				
61.	M/s Indian Organic Chemicals Ltd. . . . .	..		
<b>MAHINDRA &amp; MAHINDRA</b>				
62.	Mahindra & Mahindra Ltd. . . . .	..	..	..
<b>OTHER SINGLE LARGE UNDERTAKING HAVING ASSETS OVER RS. 20 CRORES OR MORE</b>				
63.	M/s Good-year India Ltd. . . . .	..	..	..
64.	M/s. Nirlon Synthetics Fibres and Chemicals Ltd. . . . .			
65.	India Cement Ltd. . . . .			
66.	Madras Rubber Factory Ltd. . . . .	..	..	..

Note : This statement does not include information about three dominant undertakings registered under section 20(b) of the M.R.T.P. Act. 1969.

## APPENDIX II

(Vide paragraph 8·20)

*Working of manpower requirement by applying SIU norms to the disposals of 1978-79.*

S.No.	Type of case	S.I.U. Norms per annum per I.T.O.	Disposal during 1978-79	No. of I.T.Os. required applying S.I.U. norms
1.	Companies (all Categories) . . . . .	145	34,840	240
2.	Non-Company scrutiny cases Cat. I (business cases with income over Rs. 25,000 . . . . .)	325	2,14,513	660
3.	Non-Company Scrutiny cases Cat.II & III (business cases with income between Rs. 7500 & 25000) . . . . .	870	3,32,758	383
4.	Non-Company scrutiny cases Cat. IV & V (other cases) . . . . .	1675	3,05,177	182
5.	Summary cases			
	(i) Salary (estimated) . . . . .	5780	5,00,000	87
	(ii) Cat.III & above (estimated by applying proportion of scrutiny cases . . . . .)	1255	9,94,325	792
	(iii) Cat. IV&V estimated as above . . . . .	2755	9,13,846	333
	Total excluding Central Circles		32,99,459	2677
6.	Other cases . . . . .	1554	55,83,762	377
	Total for Circles other than Central Circles . . . . .			3054
	Add actual development in Central Circles during 1978-79 . . . . .			183
	Total No. of ITOs. required for 1978-79 on the basis of S.I.U. norms			3237
	Less actual deployment . . . . .			2747
	Shortfall in manpower . . . . .			490

### APPENDIX III

(Vide Introduction)

#### Statement of Conclusions/Recommendations

Sl. No.	Para No.	Ministry/Department	Conclusions/Recommendations
(1)	(2)	(3)	(4)

1. 1.32 Ministry of Finance  
(Deptt. of Revenue)

Time and again, the Public Accounts Committee have expressed concern over the mounting pendency of assessments. In paragraph 1.43 of the 117th Report, the Committee (1969-70) had taken note of the Ministry's assurance that the Board expected to reduce the pendency to 10 lakhs by the end of 1969-70 and to 'an insignificant figure' by 1972. Far from the assurance held to the Committee having been fulfilled, the pendency has gone up to 19.26 lakhs at the end of the year 1978-79 which itself recorded an increase of 3.88 lakh assessments over 1977-78. The first ever study undertaken by the Directorate of O & M Services in the Central Board of Direct Taxes in early 1978, to take stock of the position and assess the progress achieved during the four-year period (1974-78) "does not reveal a very bright picture.... Whether it be the arrears of assessments or arrears of tax demands, the overall picture is not too encouraging. The quantum of work expected to be carried forward on 1-4-1978 is almost the same as was four years back.... This is

inspite of the fact that there has been increase in man-power (to the extent of 373 Income-tax Officers) during the period.”

The Committee are concerned to note the submission made by the representative of the Ministry during evidence that.... “we also found, on a review made in respect of the four action plans which had preceded the 1978-79 action plan that most of the items relating to pre-assessment work and post-assessment work had remained neglected. Penalty cases were growing from year to year. Audit objections were not being attended to. Taxes paid were not being credited and so on.”

The Committee would also like to draw attention to some other serious observations that have developed during the course of implementation of the Action Plans namely:—(i) more than 1/3 of the departmental effort was being used only to deal with ineffective cases, yielding no demand; (ii) number of cases where notices under Section 139(2) had not been issued had increased in geometrical proportion, “may be with a view to suppressing the inputs of current assessments from year to year and thereby achieving the Action Plan targets of carrying forward only a certain percentage of pending assessments”, (iii) there was no coordination between income tax and wealth tax and assessments under other direct taxes.

The above paragraph reveal a very unhappy state of affairs in the Income Tax Department. It is obvious that the attempt to

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translate the concept of "Management by Objectives" through the yearly action plans has failed to enthuse the tax collection machinery and to reorient its functioning on purposive lines.

5. I .36  
Ministry of Finance  
(Deptt. of Revenue)

The Committee have dealt with the various facets of the problem in detail in the subsequent sections of this Report. At this stage, they would only like to emphasise the imperative need for a thorough reorientation and streamlining of the machinery so as to make it an efficient tool for realising the objectives of the Government. Any amount of plugging the loopholes through successive amendments of the tax laws would be an exercise in futility only making the law onerous and cumbersome so long as the top functionaries of the organisation are not able to motivate properly the field staff as well as those working in the headquarters towards achievement of clearly defined objectives. The Committee recommend that besides official tours undertaken by the Members of the Central Board of Direct Taxes, periodical review meetings should be held with the field officers to discuss and address their problems and difficulties with a view to improving the administrative efficiency of the Department.

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The Committee are of the view that there is a paramount need not only to tone up the management information system at all levels but also for simplification of procedures and bringing about the human touch which is so essential in any organisation which has day-to-day dealings with the public.

7. 1.38 -do- The problem of mounting arrears of tax assessments and delays in finalisation of cases has a human aspect to which the Department do not seem to have given adequate thought so far. So long as a case is not finalised, the honest tax payer continues to suffer from a nightmarish feeling that he is in the dock. The Committee cannot therefore, emphasise too strongly the urgent need for clearing the backlog of assessments under a time bound programme and also for ensuring that fresh cases are not allowed to get piled up.

8. 1.39 -do- The Committee desire that the Ministry of Finance should take note of the various lacunae in the implementation of the Action Plans referred to above and effect necessary improvements without delay.

9. 2.10 -do- The Committee observe that one of the major problems on which particular emphasis was laid in the Action Plan for 1978-79 was the "menace of ever increasing tax arrears" which stood at Rs. 990 crores as on 31-3-1978. The action plan envisaged collection of at least 55 per cent of the gross arrear demand and 90 per cent of the gross current demand. The actual achievement was 44.4 per cent collection of the gross arrear demand and 90.6 per cent of the current demand. The gross arrears were brought down from Rs. 990 crores to Rs. 911 crores at the end of the year 1978-79. The entire reduction of Rs. 79 crores is stated to have been achieved in the tax in arrears (from Rs. 634 crores to Rs. 555 crores). According to the Ministry, this reduction was achieved notwithstanding the fact that during

(1)	(2)	(3)	(4)
10	2.11	Ministry of Finance (Deptt of Revenue)	1978-79, the Department raised a current demand of Rs. 205 crores more than in the preceding year.
11	2.12	Do.	From the statement given in Appendix I the Committee find that the net arrears of tax outstanding against the monopoly houses covered by the MRTP Act, 1969 amounted to Rs. 1164.60 lakhs as on 31 March 1978 and Rs. 711.14 lakhs as on 31 March 1979. The Ministry have stated that "this statement does not include information about three dominant undertakings registered under section 20(b) of the MRTP Act, 1969."
12	2.13	Do.	The Committee recommend that information regarding tax in arrears and current demand exceeding Rs. 10 lakhs should henceforth be made available to Parliament through the Annual Reports of the Ministry.
13	3.19	Do.	The Committee find that as against the Action Plan target for disposal of 21,262 company assessments with income above Rs. 25000,

the actual disposal during 1978-79 was of 12,166 cases only—a shortfall of 9,096 cases or nearly 43 per cent. Other non-company scrutiny assessments with returned/last assessed income of Rs. 1 lakh and above also fell short of the target by 6,136 cases i.e. by nearly 13 per cent. The total number of company assessments completed during 1978-79 was 35,982 as against 41,533 in 1977-78 i.e. 5,551 cases short of the previous year's performance. The pendency of company assessments went up from 34,864 at the end of 1977-78 to 40,563 at the end of 1978-79. The overall pendency in big income cases was 14 per cent for category I (i.e. business cases having income over Rs. 25,000) and 8 per cent for category II (over Rs. 15,000 but not exceeding Rs. 25,000) as against 4 per cent and 1 per cent respectively for categories III and IV i.e. low income cases.

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The Committee further observe that even though the disposal of wealth tax assessments went up from 3.16 lakhs in 1977-78 to 4.66 lakhs in 1978-79, the total pendency of such cases also increased from 3.14 lakhs as on 31-3-1978 to 3.32 lakhs as on 31-3-1979. In spite of the fact that the Action Plan laid specific stress on disposal of wealth tax assessments which were getting time barred on 31 March 1979, as many as 9,942 such assessments pertaining to 1974-75 and earlier years remained pending on 31-3-1979.

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The Committee thus find that the Action Plan targets in the above important categories of scrutiny assessments could not be achieved by the Department inspite of the fact that these had been identified as key result areas and special company circles were carved out in

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16	3.22	Ministry of Finance (Deptt. of Revenue)	<p>important places. The Department has also been assigning high income cases to senior officers designated as IACs (Assessment).</p> <p>The Committee regret to note that inspite of these measures the Department failed to achieve the targets for disposal of high income assessments during 1978-79. The Committee consider that much more vigorous efforts are called for in the matter of clearing the increasing backlog of high income cases than what has been in evidence thus far.</p>
17	3.23	-do-	<p>In this connection the Committee note that inadequacy of efforts was attributed also to insufficiency of staff. The Committee consider that for purpose of collection of revenue, adequate and efficient staff is <i>sine qua non</i> and therefore an evaluation is immediately necessary to determine how far the strength of the staff needs to be augmented to make the working of the Department more efficient.</p>
18	4.8	-do-	<p>The Committee had earlier in their 57th Report (1972-73) expressed concern over the plea of helplessness of the Department in completing the assessments of bigger assesseees and had recalled that the Working Group of the Administrative Reforms Commission had come to the conclusion, on the basis of a case study, that the total number of adjournments granted by the Income Tax Officer on his own was much higher than the adjournments asked for by the assesseees. The Committee had desired that Government should seriously consider this matter in all its aspects and take effective mea-</p>

sure to discourage dilatory tactics on both sides so that bigger assessments could be completed speedily.

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The Committee find that inspite of specific instructions issued by the Board, the assessing officers continue to adjourn high income group cases without compelling reasons. It was conceded during evidence that to a certain extent, the I.T.Os are to blame for unnecessary adjournments. The Committee recommend that some sample studies should be conducted in this regard and based on the results of the study, public instructions be issued to the assessing officers. This would also allay the misgivings in public mind that frequent adjournments are granted for extraneous reasons.

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A special cell has been functioning in the Directorate of Inspection since June 1972 entrusted with the responsibility of effectively tackling tax evasion by large industrial houses. Originally only 2 Groups of industrial houses were entrusted to it. But now 8 Groups are entrusted to it. According to the Ministry, with the limited staff at its disposal, the Cell is not able to keep surveillance over all the 2000 and odd companies belonging to the large industrial houses covered under the MRTTP definition. The representative of the Ministry averred during evidence that surveillance over MRTTP companies should continue to be done by the existing field machinery on a decentralised basis. The Committee understand that during 1979-80, the Cell was actively involved in 72 assessments which yielded additional revenue of the order of Rs. 48 crores to the Government.

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21. 5.11 Ministry of Finance  
(Deptt. of Revenue)

The Committee are strongly of the view that the activities of the large industrial houses need to be watched more closely than has been the case so far. Considering the fact that the monopoly houses in the country are increasingly adopting the same techniques and tactics of tax evasion and tax avoidance as the multinational companies, the Committee would emphasise the need for strengthening the Special Cell so that it becomes an effective instrument for overseeing the activities of the monopoly concerns; for directing, coordinating and expediting their assessments as well as for studying the various methods employed by them to evade/avoid their tax liability as to make it increasingly difficult for them to dodge to tax dragnet.

22. 6.9 -do-

The Committee take note of the specific assertion made by the official, representatives of the Ministry during evidence that no circular had been issued by the CBDT which fettered the discretion of the Income-tax Commissioners in the matter of reduction or waiver of penalty in cases where the assessee has voluntarily and in good faith made true and full disclosure of his income (otherwise than provided in the Act itself). In view of certain doubts about the interpretation of the legal provisions in this respect, particularly in regard to the question whether a partial detection vitiates the entire disclosure, the Committee suggest that the views of the Law Ministry may be obtained in this regard.

23. 6.10 -d o-  
The Committee consider that a very hard headed and pragmatic view must be taken in the matter of settlement of cases. In its anxiety either to collect fancy quantum of taxes which are never realised or in its anxiety to penalise the assessee who are rarely prosecuted, the mechanism of settlement contemplated in section 273(A) should not be allowed to rust where as a result of settlement better revenues can be collected by the Government. Keeping this in view, the Board should issue suitable instructions in the matter and dispel the apprehensions in the mind of the Commissioners that there hands are fattened in the matter of exercising powers under Section 273(A) and other connected Sections of the Income-tax Act, 1961.
24. 7.14 -do-  
The summary assessment scheme was launched in 1970 with a view *inter alia* to achieve larger disposals in cases with comparatively smaller incomes so as to bring down the pendency of assessments in a significant manner. With this end in view, the initial monetary limit of Rs. 25,000/- for summary assessments has been progressively raised and at present it is Rs. one lakh uniformly in all cases.
25. 7.15 -do-  
Of the 52.36 lakh assessments for disposal at the beginning of the year 1978-79, as many as 34.28 lakhs comprised summary assessments. The Committee find that whereas the number of summary assessments completed in the previous year *viz*, 1977-78 was 29.88 lakhs, those completed under this scheme in 1978-79 declined to 20.88 lakhs. Thus, the number of summary assessments



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completed during 1978-79 registered a decrease of 9 lakhs over the previous year. As compared to the action plan target of 26.40 lakhs the performance fell short by 5.82 lakh cases i.e. by over 21 percent. As per figures given in the audit report the pendency of summary assessment cases went up from 6.62 lakhs as on 31-3-78 to 10.16 lakhs as on 31-3-79.

26. 7.16 -do- One of the reasons advanced by the Ministry of Finance is that in 1978-79, a conscious decision was taken to keep the number of assessments in ineffective cases (i.e. where the income is below the taxable limit) at a low level. Another argument advanced by the Ministry for lower disposals in summary assessment cases is that the raising of basic exemption limit from Rs. 8,000 to Rs. 10,000 applicable for assessment year 1978-79 resulted in a number of assessees having income in the above bracket not being assessable as before.

27. 7.17 -do- The Committee are not convinced with the reasons given for the substantial shortfall in disposal of summary assessment cases during 1978-79 since the action plan targets were fixed after taking into consideration all relevant factors.

28. 7.18 -do- As would be seen from the figures given earlier, the disposal of scrutiny assessment during the year 1978-79 was also far below the prescribed targets. The Ministry have themselves admitted—The

main rationale of the summary assessment scheme was to utilise the manpower saved to make detailed investigation in all the cases left for scrutiny. This objective has not been pursued.”

As the objective underlying the summary assessment scheme, viz., to utilise the manpower saved to make detailed investigation in scrutiny cases has not been fully achieved, the precise reasons for increasing the monetary limit for summary assessments to Rs. 1 lakh need to be explained to the Committee. The Committee recommend that since the scheme has been in operation for over ten years, an overall evaluation of the scheme may be made with a view to finding out how far it has succeeded in expediting the disposal of cases, reducing the cost of collection, saving in manpower etc. A sample study should also be made to ascertain the extent of suppression of revenue-yield as a result of adoption of the summary procedure.

The sanctioned strength of ITOs has risen from 3392 as on 1.4.1977 to 3642 as on 1.4.1978 and 3746 as on 1.4.1979. The sanctioned strength of IACs has gone up from 290 to 294 and still further to 377 during the above period. The number of Commissioners of Income Tax rose from 73 as on 1.4.1977 and 1.4.1978 to 156 as on 1.4.1979. Thus the total increase during this period has been of 354 ITOs, 87 IACs and 83 CSIT. The number of ITOs actually engaged on assessment functions was 2575 as on 1.4.1977, 2622 as on 1.4.1978 and 2747 as on 1.4.1979 i.e. a net increase of 172 in two years. In addition, 63 posts of IAC's (Assessment) were sanctioned in October, 1978 to assess cases having income of Rs. 5

lakhs and above, search and seizure cases, foreign company cases etc.

The Committee understand that by applying the norms of work laid down by the Staff Inspection Unit in 1969, it was found (March, 1978) that if all the objectives that were specified for the Action Plan for 1977-78 were to be achieved in 1978-79 also, the number of ITOs required would be as high as 4,139.

The Committee have also been informed that the CBDT prescribes annual disposal targets in the areas of assessment, collection etc., the objective being achievement of optimum results in the most important areas with the available man-power. These targets are however, not based on any work or method study and they cannot, therefore, be compared with the norms laid down by the S.I.U. Moreover, the S.I.U. have not fixed any norms for disposal of investigation cases in Central and Special Circles as well as for surtax cases and set aside assessments which pose special problems.

The exercise done by the Ministry to work out the manpower requirements on the basis of S.I.U. norms applied to the actual disposal in 1978-79 indicates that as many as 3237 ITOs would have been required if the SIU norms had been followed, whereas actually only 2747 officers were deployed i.e. there was a shortfall of 490. According to the Ministry, this is indicative of the fact that the performance has been higher than the norms fixed.

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Ministry of Finance  
(Dept. of Revenue)

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34. 8.26 Do. The Committee note the contention of the representative of the Ministry that the norms laid down by the S.I.U. more than 10 years back have now become outdated and the law having become more complex, it would not be fair to expect the same disposal from the ITOs. The Committee nevertheless consider that measures such as the gradual extension of the summary assessment scheme to cover cases upto Rs. one lakh, creation of posts of IACs (Assessment) etc. should have enabled the Department at least to sustain the previous years' performance. The heavy shortfall of 7 lakh assessments during 1978-79 as compared to 1977-78, despite an increase of 172 in the strength of ITOs actually engaged in assessment function, and creation of 63 posts of ICAAs (Assessment) would, therefore, indicate that there has been a marked deterioration in the efficiency of the Department.

35. 8.27 Do. It is essential that a fresh works and methods study be made to ascertain the manpower necessary to efficiently administer the direct tax laws. The complaint of the Department that it is under-staffed needs to be properly evaluated. If the grievance is found to be justified on the basis of the study, Government should provide adequate number of Income-tax Officers, Inspecting Asstt. Commissioners, Appellate Asstt. Commissioners and Commissioners of Income-tax. The exact number of Appellate Asstt. Commissioners required for expeditious disposal needs to be examined because a large number of appeals have been pending finalisation in the Department which is injurious to the interest of revenue. The Committee are of the opinion

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that the Department is expected to collect revenue, with speed and efficiency which are indispensable pre-requisite for maximising revenue collections. The Government must not, therefore, labour under a false sense of economy in not providing adequate manpower if it is needed to optimise speed and efficiency.

36. 9.4 -do-

The incentive scheme designed to encourage the ITOs to give of their best does not appear to have enthused the Department. According to the Ministry, the reason perhaps is that the ITOs are afraid that mistake might be detected during inspection by IAC or during scrutiny by Internal Audit. Since the reason for introduction of the scheme is precisely to encourage quality work, it is difficult to see what other criteria could be introduced and indeed how a really competent and conscientious officer could feel discouraged or hesitant to meet the required stipulations. In any case, there is need for reviewing the whole matter.

37. 10.7 -do-

One of the factors contributing in some measure to the delay in finalising the assessments is undoubtedly the cumbersomeness of various tax laws. As a continuously developing tax law, the Income tax Act has been repeatedly amended during the last two decades with a view to plugging the various loopholes leading to evasion of taxes, to combating the evil of black money and often to extending the areas of concessions intended for planned development of the economy with the result that it is exiled from simplicity and co-

herence. Various factors relating to the economic needs of the country, budgetary requirements, incentives for investment of capital are taken into account at the time of formulation of Budget proposals. As far back as in 1967-68, the Public Accounts Committee had, in their 17th Report (4th Lok Sabha) expressed the view that the present system of levy of taxes was 'onerous and complicated' and that the collection of taxes had not been efficient.

38. 10.8 -do- In 1977, Government set up a Committee of experts, known as Direct Tax Laws Committee (Chokshi Committee) to recommend measures to simplify and rationalise the direct tax laws with a view to making them readily comprehensible to tax payers, reducing litigation and thus subserving the interests of the national economy. The final Report of the Chokshi Committee was submitted to Government in September, 1978. The Committee have been informed that the recommendations of the Chokshi Committee are under examination alongwith such of the recommendations of the Wanchoo Committee, which had not been acted upon as yet. Keeping in view the over-riding need for simplification. Government propose to bring forward a comprehensive bill on direct taxes.

39. 10.9 -do- The Committee have observed that numerous amendments made to the direct tax laws were necessitated on account of faulty drafting. Continuous spate of amendments make the law incomprehensible and the job of the assessing officer exceedingly difficult. The Committee are of the view that frequent amendments for purposes of plugging the loopholes become counter-productive in so far as

instead of helping the Government to augment its revenue, they provide scope for easy evasion and avoidance because of the increased complexity of law implicit in frequent the amendments. The Committee, therefore, recommend that while the proposed comprehensive enactment is prepared, so as to simplify the direct tax laws both with reference to procedural and substantive laws, particular attention is paid to carefully draft the same. It would obviate the necessity of amendments year after year. Care should also be taken that the entire enactment is made more methodical so as to the capable of being comprehended and understood by the tax payers.

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10. 10

Ministry of Finance  
(Deptt. of Revenue)

While proposing retrospective legislation, Government needs to bear in mind that it is likely to cause hardship to honest and unsuspecting assesseees as well as is apt to adversely affect the credibility of the Government.