

**HUNDRED AND FIFTEENTH  
REPORT**

**PUBLIC ACCOUNTS COMMITTEE  
(1982-83)**

(SEVENTH LOK SABHA)

**ARREARS OF ASSESSMENTS**

**MINISTRY OF FINANCE**

[Action Taken on Thirty-Fourth Report (Seventh Lok Sabha)]



*Presented in Lok Sabha on  
Laid in Rajya Sabha on*

**LOK SABHA SECRETARIAT  
NEW DELHI**

*July, 1982/Asadha, 1904 [Saka]*

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CORRIGENDA TO 115TH REPORT OF THE PUBLIC  
ACCOUNTS COMMITTEE (SEVENTH LOK SABHA)  
PRESENTED TO LOK SABHA ON 13 AUGUST, 1982

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63		21	A.P. Janardhanan	A.P. Janardhanam
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PUBLIC ACCOUNTS COMMITTEE  
( 1982-83 )

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1. 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

1. The Chairman of the Public Accounts Committee as authorised by the Committee do present on their behalf this Hundred and Fifteenth Report on action taken by Government on the recommendations of the Public Accounts Committee contained in their Thirty Fourth Report (Seventh Lok Sabha) on Arrears of Assessments.

2. Referring to the persistent increase in the pendency of assessments (from 19.26 lakhs as at the end of 1978-79 to 25.56 lakhs at the end of 1980-81), the Committee have pointed out that reduction in the number of pending assessments could not be achieved through mere addition to staff but is effected more by policies designed to keep down scrutiny cases to manageable levels. The Committee have emphasised in this connection the need for striking a realistic balance between manageable workload and the size of trained or organised staff strength.

3. Reiterating the need for strengthening the Special Cell of the Directorate of Inspection in the Central Board of Direct Taxes, the Committee have urged the Ministry of Finance to adopt a more positive approach so as to cover all industrial houses in a three or five year cycle.

4. The Report was considered and adopted by the Public Accounts Committee at their sitting held on 25 June, 1982.

5. For reference, facility and convenience, the recommendations and conclusions of the Committee have been printed in thick type in the body of the Report and have also been reproduced in a consolidated form in the Appendix to the Report.

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

New Delhi;

July 15, 1982

Asadha 24, 1904 (S)

SATISH AGARWAL

Chairman

Public Account Committee.

## CHAPTER I

### REPORT

1.1. This Report of the Committee deals with the action taken by Government on the Committee's recommendations and/or observations contained in their 34th Report (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.

1.2. Action Taken Notes have been received from the Government in respect of all the 40 recommendations and/or observations contained in the Report and these have been categorised as follows:

(i) *Recommendations or observations that have been accepted by Government:*

S. Nos. 9-14, 17, 22-29, 35 and 36.

(ii) *Recommendations or observations which the Committee do not desire to pursue in the light of the replies received from Government:*

S. Nos. 30-34.

(iii) *Recommendations or observations replies to which have not been accepted by the Committee and which require reiteration:*

S. Nos. 1-8, 15, 16, and 18-21.

(iv) *Recommendations or observations in respect of which Government have furnished interim replies:*

S. Nos. 37-40.

1.3 The Committee desire that final replies in regard to those recommendations in respect of which only interim replies have so far been furnished should be submitted expeditiously after getting them vetted by Audit.

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

*Arrears of Assessment (S. No. 1—8, Paras 1.32—1.39)*

1.5. Referring to the large increase in the arrears of assessments from 15.38 lakhs pending at the end of the year 1977-78 to 19.26 lakhs as at the end of the year 1978-79, the Committee had observed in paragraph 1.32 to 1.39 of the 34th Report (7th Lok Sabha) as under:

“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. 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 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 to 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 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 assessments and assessment 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 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.

The Committee have dealt with the various facts 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 beside 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.

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.

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 deck. 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.

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.’

1.6. In the Action Taken note dated the Ministry of Finance have stated:

“There are certain factors which have contributed to the increase in pendency. Some of these are:—

- (i) Imposition of a ban on completion of ineffective cases.
- (b) Shift of emphasis to completion of scrutiny assessments with greater stress on quality. This has resulted in the diversion of senior Assessing Officers to such circles. There has also been increase in the number of Central Circle.

The following steps have, however, been taken to increase the disposals;

- (i) The limit of total income in respect of summary assessments has been increased to Rs. 1 lakh.
- (ii) Legislative changes have been made through Finance Act (2), 1980 to remove some of the bottlenecks which inhibited the pace of their disposal.
- (iii) Inspectors of income-tax have been authorised to complete summary assessments involving a total income upto Rs. 25,000/-.

For and from the Action Plan for 1979-80, the first quarter of the financial year has been exclusively reserved for completing house-keeping jobs.

Accordingly, no target for disposal of assessments etc. is now being fixed for the first quarter though officers are not pre-empted from making disposals, if they have time to spare. The intention is that during this period, the officers are also required to attend to the following important items of work, having a direct bearing on public relations aspect like:

- (i) Issue of pending refunds; and
- (ii) rectifications claim/appeal effects.

The scope of the Action Plan for 1981-82 has been further extended to cover major audit objections. A target of 100 per cent disposal of arrear audit objections has been fixed. From 1981-82 F. Y. a small percentage of disposal has been fixed for the first quarter also.

It may be clarified that under the existing provisions of law, even where income tax return declaring income below the taxable limit is filed, the ITO has to take cognizance of it and frame an assessment. Thus, such ineffective cases do constitute genuine workload. Since the bulk of such load falls under the Summary Assessment Scheme, wherein the Department is giving its earnest attention, to accelerate the disposal, it is expected that a major portion of such assessments would be disposed of. Moreover the number of officers required to deal with the ineffective cases would be hardly 10 per cent of the total manpower deployed.

4. Issue of notices under section 139(2): The Board has been issuing instructions from time to time emphasising the importance of issuing notices u/s 139(2). The instructions of the Board were made clear in its Instruction No. 935 dated 17.3.1976 asking the officers to issue notices under section 139(2) in cases where returns are not received voluntarily upto the end of the month of July. These instructions were reiterated in Board's Circular No. 296 [F. No. 220(3)/81-ITA-II] dated the 31st March, 1981 (Annexure A). It may not be, however, out of place to mention that with the insertion of sub-section (1A) in Section 139 by the Finance Act, 1974 persons in receipt of salary income not exceeding eighteen thousand rupees and income from sources referred to in Sec. 80L not exceeding Rs. 3,000 are not obliged to file returns of income voluntarily. In such cases it may not be appropriate to issue notices u/s 139(2).

The Board have also issued instructions contained in its letter F. No. 201/76/81-ITA.II dated the 25th August, 1981 (Annexure B) expressing serious concern at incorrect reporting of the pendency. Officers have been directed that the correct pendency should be brought on registers on 30th September, 1981.

As regards the personal involvement, instructions have been issued from time to time to this effect. During their visits to the field charges, both Members and Chairman have been highlighting, during discussions, about the enduring benefit conferred by personal involvement by senior officers. In one of his recent D.O letters F. No. 401/11/81-ITCC dated the 21st August, 1981 (Annexure C), the Chairman has also requested the Commissioners to send their monthly report to him about their charge, giving the details of progress under various heads. The reports received from the Commissioners are perused and instructions, wherever necessary, are issued.

With the recent addition to the strength of Commissioners and other cadre posts, it is anticipated that the position will further improve.

During their tours, the Members and Chairman also meet the Commissioners and Members of staff to know their actual problems, with a view to redressing them.

In regard to coordination between different direct taxes, instructions already exist emphasising the need for such coordination."

1.7 In the 34th Report the Committee had drawn attention to the large increase in the number of assessments pending disposal during the year 1978-79 as compared to the previous year. As against 15.38 lakh assessments pending at the end of 1977-78 the number had gone up to 19.26 lakhs at the end of 1978-79. The Committee had pointed out that the attempt to translate the concept of 'management by objectives' through the yearly action plans had failed to enthuse the tax collection machinery and to reorient its functioning on purposive lines. The Committee had impressed upon the Department 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. The Committee had stressed that successive amendments of the tax laws would be an exercise in futility as long as the top functionaries of the organisation were not able to motivate properly the field staff as well as those working in the Headquarters towards achieving clearly defined objectives. The Committee had also expressed the view that there was a need not only to tone up the management information system at all levels but also for simplification of procedures. The Committee

The Committee had emphasised the urgent need for clearing the backlog of assessments under a time-bound programme and had desired the Ministry of Finance to take note of the various lacunae in the implementation of the action plans with a view to effecting necessary improvements without delay.

1.8 The Ministry's reply indicates that summary assessment cases are likely to be disposed of and that with the recent addition to the strength of Commissioners and other cadre posts, the pendency will go down. Further, the disposal will increase because of:—

(i) raising of the limit of total income in respect of summary assessments cases to Rs. 1 lakh (ii) legislative changes made through the Finance Act (2) 1980, to remove some of the bottlenecks which inhibited the pace of disposal and (iii) authorising Inspectors of Income-tax to complete summary assessments involving a total income upto Rs. 25,000/.

1.9. The Committee however, observe from the Report of the C&AG for the year 1980-81, Union Government (Direct Taxes) that though the number of assessments completed during the years 1978-79, 1979-80 and 1980-81 was 33.10 lakhs, 34.90 lakhs and 40.35 lakhs respectively, not-

withstanding such increases in disposal of cases, the pendency of assessment had gone up. It had gone up from 19.26 lakhs as at the end of 1978-79 to 22.99 lakhs as at the end of 1979-80 and still further to 25.66 lakhs as at the end of 1980-81. It is obvious that the Ministry and the Board are not masters of the work load which it is in their power to manage. Reduction in the number of pending assessments is not the result of mere addition to staff but is effected more by policies designed to keep down scrutiny cases to manageable levels. The Ministry's reply is silent on the causes of the worsening situation in the pendency of cases. The Committee are unable to avoid getting an impression that the Ministry are only taking the easy course of increasing the strength of staff/officers, and are not aware of the need for policies to keep the scrutiny assessments down to levels beyond which even increased staff strength cannot cope with. The Committee recommend that the Ministry should take more purposeful and realistic action in this regard.

....

1.10 A disturbing aspect coming to light from the Ministry's reply is with regard to the incorrect reporting of data by the field formations to the Board. A sample study recently carried out by the Inspection Division of the Board to ascertain the accuracy of reporting of pendency of Income tax assessments has revealed that under-estimation of pendency, both of arrears and current assessments, is as high as 100 per cent and more in certain wards/circles. In a communication dated 25 August, 1981 addressed to all Commissioners of Income-tax, the Board have *inter alia* expressed their serious concern over such kinds of lapses and have pointed out that "suppression of actual pendency leads to a misleading impression of the workload which comes in the way of effective planning and there is always a risk of assessment proceedings getting barred by limitation. This also confirms the fears of the Committee that the Board and the Ministry are not masters of the work which they are expected to manage and even their information system is not being managed effectively by them. The Committee are firmly of the view that the volume of pending cases is steadily assuming alarming proportions and could soon lead to break down of the system for proper assessment of scrutiny assessment cases. If the staff is burdened by sheer numbers of pending cases, increasing staff strength will give negligible or only marginal returns disproportionate to the increase in staff strength. Another study by the Inspection team of the Board was expected to be undertaken in the month of October 1981 and if any discrepancy in this regard was noticed, strict disciplinary action (including suspension from service) was to be taken against the officers concerned. The Committee would like to be apprised of the result of this study and the final action taken on the basis thereof. The Committee recommended that in addition to disciplinary corrective action, the right balance between manageable work load and size of trained and organised staff strength (excluding peripheral staff or additions to staff not contributing significantly and

directly to assessment work) be struck realistically by the Board and the Ministry.

1.11 The Committee have repeatedly been emphasising in their reports the need for improving the management information system between the Board and the field formations. The findings of the study referred to above have only underscored the Committee's observations. The Committee recommend that the Board/Ministry should get meaningful control over their information system without loss of time and ensure thereby that the recorded information shown in the register is true.

*Disposal of scrutiny assessments (S. Nos. 15 and 16—Paras 3.21 and 3.22)*

1.12. Drawing attention to the shortfall in the realisation of action plan targets with regard to important categories of scrutiny assessments, the Committee had in para 3.21 of the 34th Report observed:

“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).”

1.13 In the action taken note dated 28 December, 1981, the Ministry have stated:

“The major step taken to augment the disposal of company assessments and higher income scrutiny assessments is the creation of new company circles and new posts of IAC (Assessment). There were 262 company circles and 132 posts of IAC (Assessments) as on 1-4-1981 against 194 company circles and 87 posts of IAC (Assessments) as on 1-11-1978.”

1.14 In para 3.22 of the Report, the Committee had further observed:

“The Committee regret to note that in spite 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.”

1.15 The Ministry have stated in the Action Taken Note dated 28 December, 1981 as follows:

“It may be stated that the overall disposal of scrutiny assessments has shown an increase during the year 1980-81 to 9,53,757 as against 9,17,776 in 1979-80 and 8,98,162 in 1978-79.”

1.16 One of the steps stated to have been taken by the Department to augment the disposal of company assessments and higher income assessments (scrutiny cases) with regard to which the Committee had adversely commented in para 3.21 of the 34th Report, is the creation of 68 additional company circles and 45 additional posts of IAC (Assessments) during the period November 1978 to March 1981. As a result, the overall disposal of scrutiny assessments is stated to have gone upto 9.54 lakhs in 1980-81 as against 9.18 lakhs in 1979-80 and 8.98 lakhs in 1978-79. The data given in the C&AG Report, 1980-81 (Direct Taxes) shows that as against 10.27 lakh scrutiny assessments pending as on 31 March, 1980, the number of such cases was 8.80 lakhs as on 31 March, 1981. The Ministry's note is silent about the target prescribed in the action plans for these two years and the extent to which these were realised. Considering the high pendency of such cases, the Committee would stress that much more vigorous efforts should be made to liquidate the arrears. The Committee expect that this aspect will be given serious consideration while drawing up the yearly action plans and the Department would ensure that the targets laid down in this behalf are fulfilled. The Committee would also urge that the performance of IACs (Assessment) who have been specially drafted for looking into the high income cases and of the special company circles carved out in important cities, should be closely monitored and any lapses found on their part should be taken serious note of and suitable action taken.

*Measures to discourage dilatory tactics (S. No. 18 and 19—Paragraph 4.8 and 4.9*

1.17 Finding that in spite of specific instructions issued by the Board assessing officer continued to adjourn high income group assessment cases without compelling reasons, the Committee had, in paragraphs 4.8 and 4.9 of their 34th Report (Seventh Lok Sabha) observed as under:

“The Committee had earlier in their 51st Report (1972-73) expressed concern over the plea of helplessness of the Department in completing the assessment of bigger assessee and had recalled that the working group 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 assessee. 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.

The Committee find that in spite of specific instructions issued by the Board, Assessing Officers continue to adjourn high income group cases without compelling reasons. It was conceded during evidence that to a certain extent, the ITOs 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."

1.18. In their Action Taken Note dated 3 October, 1981, the Ministry of Finance (Department of Revenue), have stated:

"In order to discourage the tendency on the part of the ITOs to grant adjournments on flimsy grounds on the request of the assessee or on their own the proforma of assessment order has been revised by Instruction No. 1395 dated 15-5-1981 (Annexure A) on the line of the proforma of the Appellate order which will contain specific column for noting the dates of hearings given in a particular case. This will enable the supervisory officer to keep a check on the number of occasions on which the assessee were called upon to appear before the ITOs and is expected to have a salutary affect.

The Board have also issued Instruction No. 1367 on 18th November 1980 (Annexure B)\* impressing upon the ITOs to avoid fixing the hearing of cases indiscriminately and mechanically without acquainting themselves in advance as to their requirements. They have been advised to carefully study the file and ask for information on specific points to expedite the completion of assessment and to avoid frequent adjournments.

No specific study has been conducted in this behalf before issuing these directions, but since complaints were coming from many quarters on this account, these instructions were issued. It is hoped that this will improve the position."

1.19. The Committee had earlier pointed out that in spite of specific instructions issued by the Board, assessing officers continue to adjourn high income group cases without compelling reasons. It had been conceded during evidence that to a certain extent, the ITOs are to blame for unnecessary adjournments. The Committee had, therefore, recommended 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, which would also allay the misgivings in public mind that frequent adjournments are granted for extraneous reasons. The Committee have now been informed that the Board have issued instructions on 18 November, 1980 impressing upon the ITOs to avoid fixing the hearing of cases indiscriminately and

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\*Reproduced elsewhere under Chapter IV of the Report.

mechanically, they have been advised to study the file carefully and ask for information on specific points to expedite completion of the assessment and to avoid frequent adjournments. However "no specific study has been conducted in this behalf before issuing these instructions, but since complaints were coming from many quarters on this account, these instructions were issued".

The Committee reiterate that sample studies of cases dealt with during the year ending 31 March, 1982 should be carried out by the Directorate of Inspection in each Commissioner's charge and the findings thereof should be circulated in the annual conference of Commissioners of Income-tax. The Committee are surprised at the complacent attitude taken by the Ministry in holding that the mere issue of instructions by the Board will improve matters. The Committee are pained to observe that the poor track record of past achievements gained by issue of instructions by the Board on such matters has not registered with the Ministry.

*Close watch over the activities of large industrial houses (S. Nos. 20 and 21, Para Nos. 5.10 and 5.11)*

1.20. Stressing the need for a closer watch on the activities of large industrial houses, the Committee had, in paragraphs 5.10 and 5.11 of their 34th Report (Seventh Lok Sabha) recommended as follows:

"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 MRTP definition. The representatives of the Ministry averred during evidence that surveillance over MRTP 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.

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."

1.21. In their Action Taken Note dated 24-9-1981, the Ministry of Finance (Department of Revenue) have stated:

"The recommendations of the Committee are accepted in principle. As submitted to the Committee, it is not possible for the Directorate of Inspecting (Special investigation), as the Special Cell is now designated, to oversee all the cases of all the large industrial houses. The strength of the Directorate of Inspection (Special Investigation) will be augmented in order that important cases of a few more groups can be overseen by it."

1.22. Considering 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 had in the 34th Report emphasised the need for strengthening the Special Cell of the Directorate of Inspection in the CBDT with a view to making it an effective instrument for overseeing the activities of the monopoly concerns, for directing, coordinating and expending the assessments as well as for studying the various methods employed by them to evade/avoid their tax liability so as to make it increasingly difficult for them to dodge the tax dragnet. The Committee are happy to note that the Ministry have accepted the recommendation of the Committee in principle. The Ministry have, however, stated that it is not possible for the Directorate of Inspection [Special Investigation] (as it is now called) to oversee all the cases of all industrial houses. The Ministry, however, propose to augment the strength of the Directorate so that important cases of a few more groups can be overseen by it.

The Committee regret that in the Ministry's reply the proposal to augment staff strength of Directorate is not matched by any positive proposal on the extent to which the cell will cover the industrial houses. The Committee would appreciate if the Ministry were to adopt a more positive approach to cover all Industrial houses in a 3 or 5 years cycle and go about the work as purposively as with the proposal to augment staff. The Committee recommend that a note on the coverage achieved every year by the Special Cell and the additional revenue realised thereby, and expenditure on staff is reported in the annual report of the Ministry every year.

## CHAPTER II

### RECOMMENDATIONS OR OBSERVATIONS THAT HAVE BEEN ACCEPTED BY GOVERNMENT

#### Recommendation

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 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. 55 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.

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 fall 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.

[S. Nos. 9-10 (paras 2.10 & 2.11) of the Appendix-III of 34th Report of the PAC (Seventh Lok Sabha) (1980-81)]

#### Action Taken

The recommendations have been noted. Necessary instructions in this matter have been issued to the Commissioners of Income-tax. A copy of the instructions contained in Board's letter F. No. 385/48/81-IT(B) dated 13-7-1981 is enclosed.

[Ministry of Finance O.M. No. F. No. 241/2/81-A&PAC-II dated 10 F. No. 385/48/81-IT(B) October, 1981]

F. No. 385/48/81-IT(B)

Government of India  
**MINISTRY OF FINANCE**  
**(Department of Revenue)**

**CENTRAL BOARD OF DIRECT TAXES**

New Delhi, the 13th July, 1981

To,

All Commissioners of Income-tax

Sir,

Subject:—Public Accounts Committee—34th Report of the Committee (1980-81)—Recommendations at paras 2.10 and 2.11—Arrears of Income-tax.

I am directed to say that in paras 2.10 & 2.11 of its 34th Report (7th Lok Sabha) the Public Accounts Committee has made the following recommendations:—

“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 fall 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. Statistics relating to total arrears outstanding for the last five years is as under:—

(in crores of rupees)	
Financial year	Total arrears outstanding at the end of each financial year
1976-77 . . . . .	873.56
1977-78 . . . . .	989.89
1978-79 . . . . .	910.84
1979-80 . . . . .	1011.64
1980-81 . . . . .	1051.32
(Provisional figures)	

It will be seen from the above statement that the arrears outstanding after falling during 1978-79, have started rising again. While progressively larger current demands raised year after year may largely be responsible for the rise in the outstanding demand, a significant improvement in the over-all position is nonetheless possible if the Action Plan targets are achieved as also suggested by the Public Accounts Committee.

3. While the decisions taken at the Commissioners' Conference held in April 1981 to accelerate further the recovery of tax arrears are being communicated separately, you are requested to bring the above observations and recommendations of the PAC to the notice of the officers in your charge. They should be requested to augment the efforts for recovery of tax arrears so as to achieve and, if possible, exceed the targets set in the Action Plan for the year 1981-82 viz. 55 per cent of Arrear Demand and 85 per cent of the Current Demand. You are no doubt aware that one of the important yardsticks by which the efficiency of the Department is measured is the quantum of reduction we are able to achieve in the figure of the arrears outstanding. We have, therefore, to continuously focus our attention on this aspect of our work.

4. Please acknowledge the receipt of this letter.

Yours faithfully,

Sd/-

(H. Venkataraman),

Director, Central Board of Direct Taxes.



Copy to:—

1. DI (IT & Audit)/DI (inv)/DI (R&S)/DI (P&PR), New Delhi.
2. Asst. Director of Inspection (Bulletin)/DOMS-6 copies.
3. Bulletin Section of DI(RS&P) with 6 spare copies.
4. All officers and Sections in the Technical Wing of CBDT.
5. Hindi Section with the request to furnish stencil of Hindi version of the above instructions.
6. Section Officer (Ad. VII)
7. ITCC Section (2 copies)
8. Chief Controller of Accounts (CBDT), New Delhi.
9. Inspection Division of CBDT, Vikas Bhavan, New Delhi (with 4 spare copies)
10. C&AG of India, New Delhi (with 30 spare copies)

Sd/-(V.K. Swaminathan)

Desk Officer, Central Board of Direct Taxes

#### **Recommendation**

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 31st March, 1978 and Rs. 711.14 lakhs as on 31st 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".

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.

[S. Nos. 11-12 Appendix III Paras 2.12-2.13 of the 34th Report of the PAC (1980-81) (Seventh Lok Sabha)]

#### **Action Taken**

The observations of the Public Accounts Committee contained in the above paras have been noted by the Ministry. The information about the cases relating to tax arrears exceeding Rs. 10 lakhs as on 31st March every year, updated upto 30th September will be incorporated in the Annual Reports of the Ministry for financial year 1981-82 onwards.

[Ministry of Finance O.M. No. F. 241/2/81-A&PAC-II dated 10 October, 1981 F. 405/38/81—I.T.C.C.]

### Recommendation

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.

[S. No. 13 (Para 3.19) of the Appendix III of the 34th Report of the Public Accounts Committee (1980-81) (Seventh Lok Sabha)]

### Action Taken

The PAC's observations in regard to the fall in disposal of scrutiny assessments, particularly in respect of companies and higher income cases have been carefully noted.

[Ministry of Finance O.M. No. F.241|2|81-A&PAC-II dated No. F.228/16/81-ITA-II 28 December, 1981].

### Recommendation

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 increasing from 3.14 lakhs as on 31-3-78 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 assessment which were getting time barred on 31st March, 1979, as many as 9,942 such assessments pertaining to 1974-75 and earlier years remained pending on 31.3.1979.

[S. No. 14 Appendix III, para 3.20 of 34th Report of PAC (7th Lok Sabha) 1980-81)]

### Action Taken

The observations of the Committee have been noted by the Ministry.

[Ministry of Finance O.M. F. No. 241|2|81—A&PAC II, dated F. No. 326|27|81-WE 10 October 1981]

### Recommendation

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 quo non* 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.

[S. No. 17 (Para 3.23) of the Appendix III of 34th Report of the PAC  
(Seventh Lok Sabha) 1980-81]

### Action Taken

The Government have set up a separate Directorate known as Directorate of O&MS(IT) for the purpose of continuous review of the procedure and system of work. This Directorate has been regularly conducting work measurement studies to determine the functional requirements of manpower of the Department in various areas of operation. Some proposals for creation of additional posts for different items of work emerging from such studies are under consideration of the Government.

[Ministry of Finance O.M. No. F. 241/2/81-A&PAC-II dated 10th  
October, 1981]

F. A—11019/22/81—Ad. VII.

### Further Information

Kind attention of the Committee is invited to the Ministry's O.M. of even number dated the 10th October, 1981.

2. As stated in our reply to para 8.27 sent to the Committee *vide* O.M. under reference, the Directorate of Organisation and Management Services (Income-tax) has been regularly conducting studies to determine the requirements of manpower of the Department in the various areas of operation. One of its main proposals is for augmentation of the staff at clerical levels with reference to certain working norms evolved by it. Due to the raising of the exemption limit, the earlier recommendations are now being reviewed. This is under active consideration.

3. This issues with the approval of the Chairman, Central Board of Direct Taxes.

[Ministry of Finance O.M. No. F. 241/2/81—A&PAC-II dated 5 Nov.81]  
F.A. 11019/22/81—Ad. VII

### Recommendation

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 Com-

missioners 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.

[S. No. 22 (Para 6.9) of the Appendix III of 34th Report of the PAC  
(Seventh Lok Sabha) (1980-81)]

#### **Action Taken**

In accordance with the recommendations of the Hon'ble Committee, the clarifications given in the Instruction F. No. 1/33/68-IT (Inv) dated 29.9.1969 (a copy of which has already been furnished to the Committee vide O.M. No. 240/4/80-A&PAC-II dated 24th October, 1980) were referred to the Law Ministry with particular reference to the question whether a partial detection vitiates the entire disclosure. (A copy of the Law Ministry's advice in this regard dated 7-8-1981 is enclosed.)

[Min. of Finance O.M. F. No. 241/2/81-A&PAC-II dated 10 October, 1981]

F. No. 411/14/81-It(Inv.)

Copy of Law Ministry's advice dated 7.8.1981.

Ministry of Law, Justice &

Company Affairs

(Department of Legal Affairs)

Advice (B) Section

In para 6.9 of the 34th Report of the Public Accounts Committee (1980-81) it has been stated that in regard to the question whether a partial detection vitiates the entire disclosure, the views of this Ministry may be obtained. The observations of the Committee related to the interpretation of Section 273-A of the Income-tax Act.

2. Under Section 273-A, the Commissioner of Income-tax has the discretion to reduce or waive the amount of penalty imposed or impossible on a person or the amount of interest paid or payable if he is satisfied that such person fulfills the conditions laid down therein. The conditions are laid down in clauses (a), (b) and (c) of sub-section (1) of section 273-A. In all these cases, relief will be given only if the person voluntarily and in good faith makes full and true disclosure of his income. In the case of (a), such disclosure should be prior to the issue of a notice to him under sub-section (2) of section 139. In the case of (b), the disclosure should

be prior to the detection by the ITO of the concealment of the particulars of income or of the inaccuracy of particulars furnished in respect of such income. In the case of (c), the disclosure should be prior to the issue of a notice under sub-section (2) of section 139 or prior to the issue of notice under section 148, as the case may be.

3. It will be seen from the above that there is express mention as to the stage at which a person can seek relief, namely, prior to the issue of a notice or prior to the detection by the ITO of a part of the concealed income or of the inaccuracy of the particulars furnished, the provisions of section 273-A will not be attracted. In the case of *Makan Singh Vs. CIT* (124 ITR 228), it was contended that clause (b) of section 273-A (1) contemplates that an assessee can voluntarily make true disclosure of the particulars of his income even at a stage after certain documents that could incriminate the assessee had been seized, but before the default made by the assessee is actually detected. The court did not accept this contention. It was observed that whereas clause (a) lays down that in order to qualify for reduction or waiver of penalty in the case of non-filing or late filing of return without sufficient cause the assessee must voluntarily disclose his income before a notice under section 139(2) of the Act is issued, clause (b) provides that in the case of penalty leviable for concealment or wrong furnishing of wrong particulars. If the disclosure is made after the detection by the I.T.O. of income, the penalty can be reduced or waived only if the assessee voluntarily discloses his income before such concealment or furnishing of wrong particulars is actually detected. Both these provisions merely speak of the point of time before which the disclosure of income has to be made by the assessee so as to enable him to make a request for waiving or reducing the penalty imposed or imposable on him.

4. It is pertinent to point out that the court referred to the notification issued by the CBDT on 29th September, 1969 regarding the explanation of the word "voluntary" occurring in the corresponding section 271(4A.). It was stated in the said notification that in the context in which the word "voluntary" has been used, it is only reasonable to infer that the disclosure should be one which is not prompted by fear or inducement of any kind. If there is seizure of incriminating material in the course of a search and penalties and prosecutions are imminent and the disclosure is a sequel to such a search, it would not be possible to treat the disclosure as a voluntary one.

5. There is nothing to indicate in section 273-A that the benefit of that section will be applicable to a case of partial detection of concealment. Even in cases of partial detection, the benefit of section 273-A would not be available.

6. We are inclined to agree with the position stated in para 16(xviii) of the Circular dated 29th September, 1969 that there can be no waiver or reduction of penalty where part of the concealed income was detected prior to the disclosure.

Sd/- (P. K. Kartha)  
Joint Secretary & Legal Adviser  
7-8-1981.

### **Recommendation**

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 173(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 issued 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 273(A) and other connected sections of the Income-tax Act, 1961.

[S. No. 23 (Para 6.10) of the Appendix III of the 34th Report (Seventh Lok Sabha) (1980-81)].

### **Action Taken**

In pursuance of the recommendations of the Committee Instructions have since been issued to the Commissioners. A copy of Instruction No. 1417 (F. No. 281/36/81-IT (Inv) dated 29th Sept., 1981 is enclosed.

[Ministry of Finance O.M. No. F. 241/2/81-A&PAC-II/F. 411/14/80-IT (Inv) dated 10 October, 1981].



[COPY]

INSTRUCTION NO.—1417

F. No. 281/36/81-IT(Inv.)

Government of India

Ministry of Finance

Department of Revenue

(Central Board of Direct Taxes)

New Delhi, Dated the 29th September, 1981.

To

All Commissioners of Income-tax.

Sub:—Section 273A of the Income-tax Act/Section 18B of the Wealth-Tax Act—Clarifications regarding powers of the Commissioner—

Sir,

In the Thirty-Fourth Report of the Public Accounts Committee (1980-81) (Seventh Lok Sabha) it is stated that during the course of informal discussions 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 under section 273A where searches and seizures had been conducted. As a result of this the Cs.I.T. had not been able to complete many assessment even though the assesseees were willing to pay their taxes.

2. It was submitted to the PAC that the Board had not issued any instructions to the Commissioners which had the effect of or which could be construed as fettering their discretion in dealing with cases under section 273A of the Income-tax Act and that the Board is aware that the powers which are vested in the Commissioners under section 273A are quasi-judicial powers and have to remain unfettered. It was further explained to the Committee that the Commissioner's powers under section 273(1) for waiver/reduction of penalties and/or interest are circumscribed only by the conditions stipulated in the above section. The Committee while taking note of the submissions of the Board as above, have recommended in para 6.10 of their Report that 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 273A and other connected sections of the Income-tax Act, 1961.

3. As submitted before the Committee, the various instructions issued by the Board contain only clarifications on the scope and applicability of section 271(4A)/273A of the Income-tax Act and the corresponding provisions under the Wealth-tax Act. These clarifications have been given in consultation with the Ministry of Law and relate to the conditions stipulated in section 271(4A)/273A of the Income-tax Act/section 18(2A)/18B of the Wealth-tax Act which are to be satisfied before any waiver/reduction as envisaged in these provisions could be granted by the Commissioners. While the Commissioner should examine the applicability of Section 273A of the Income-tax Act/18B of the Wealth-tax Act in the light of these clarifications, once the stipulated conditions are satisfied the discretion of the Commissioner is not fettered by any advice/directions from any authority. The Commissioner being a quasi-judicial authority for the purposes of these sections should apply his mind to the facts of the case and pass an order on merits. In this connection reference may be made to Board's Instruction No. 1377 dated the 27th January, 1981 in F. No. 281/40/79-IT(Inv.) in which the Board has brought to the notice of the Commissioners its earlier instructions and the decisions of the High Courts, and has advised the Commissioners that as the orders under section 271(4A)/273A of the Income-tax Act and 18(2A)/18B of the wealth-tax Act are quasi-judicial orders, they should be supported by reasons with reference to the facts of the case.

Yours faithfully,

Sd/- (S. Ramamurti)

Director (Investigation)

Central Board of Direct Taxes.

Copy to:—

1. Director of Inspection

Investigation/Spl. Investigation/Intelligence/RS&PR/P&P/IT&A/Recovery.

2. Director, O.M. Services.

3. Director, National Academy of Direct Taxes, Nagpur.

4. Ministry of Law, Justice & C.A. Shri P. K. Kartha, JS&LA.

5. G & AG (20 copies).

6. All Officers and sections in the Technical Wing of Central Board of Direct Taxes.

7. Director, Vigilance.

8. Bulletin Section (5 Copies).

Sd/- (R. H. BHATT)

Under Secretary

Central Board of Direct Taxes.

### Recommendation

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.

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 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 lakhs 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.

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 assessment 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 assessee's having income in the above bracket not being assessable as before.

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.

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.

[S. Nos. 24 to 29 (Paras 7.14 to 7.19) of the Appendix III of the 34th Report of the Public Accounts Committee (1980-81) (Seventh Lok Sabha)].

#### Action Taken

A sample study was conducted by the D.O.M.S. in this regard. His conclusions were that the extent of revenue benefit as a result of conversion of summary assessment cases into scrutiny assessment was very marginal. On this basis he has stated that it might not be unreasonable to conclude that the extent of suppression of revenue as a result of adoption of summary assessment scheme is only very marginal. With reference to (a), the D.O.M.S. will be requested to make this evaluation when the Action Plan for 1982-83 is drawn up as the further impact of the increased monetary limits would be available only during 1981-82.

[Ministry of Finance O.M. No. F. 241/2/81-A&PAC-II F. 228/17/81-ITA-II, dated 28 December, 1981]

#### Recommendation

1,

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 prerequisite for maximising revenue collections. The Government must not, therefore, labour under a false sense of economy is not providing adequate manpower if it is need to optimise and efficiency.

[S. No. 35 (Para 8.27) of the Appendix III of 34th Report of the PAC (Seventh Lok Sabha) (1980-81)].

### **Action Taken**

For the Purpose of assessment of the requirement of Officers and staff of the Department to function efficiently Govt. have set up a separate organisation known as Directorate of O&MS(IT). This Directorate has been regularly conducting work measurement studies to determine the functional requirements of manpower of the Department in various areas of operation. The strength of the officers and staff is augmented from time to time on the basis of the work study conducted by the Dte. of O&MS(IT). 36 posts of Appellate Assistant Commissioners of Income-tax were created last in November, 1980. Proposals for further augmentation of the strength in different cadres for various items of work, are under consideration of the Government.

[Ministry of Finance O.M. No. 241/2/81-A&PAC-II, F. No. A-11019/22/81-Ad. VII dated 5 November, 1981]

### **Recommendation**

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 reasons 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.

[S. No. 36 (Para 9.4) of the Appendix III of the 34th Report of the Public Accounts Committee (1980-81) (Seventh Lok Sabha)]

### **Action Taken**

The matter is being reviewed. As a first step, a fresh draft scheme has been drawn up and has been preliminarily discussed. The matter will be further progressed expeditiously.

[Ministry of Finance O.M. No. F. 241/2/81-A&PAC-II F. 228/18/81-ITA-II, dated 28 December, 1981]

## CHAPTER III

### RECOMMENDATIONS OR OBSERVATIONS WHICH THE COMMITTEE DO NOT DESIRE TO PURSUE IN THE LIGHT OF THE REPLIES RECEIVED FROM GOVERNMENT

#### Recommendation

The sanctioned strength of ITOs has risen from 3392 as on 1-4-1977 to 3642 as on 1-4-1978 and 3736 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 1.4.198 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 2247 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 methor study and they cannot, therefore, be compared with the norm as 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.

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 follower, 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.

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.

[Sl. Nos. 30-34 (paras 8.22 to 8.26) of the Appendix III of the 34th Report of the PAC (Seventh Lok Sabha) (1980-81)]

#### **Action Taken**

The observations of the P.A.C. are noted. The goal of the Department should be to devise measures on a continuing basis for improving the overall efficiency. The D.O.M.S. has reported that the fall in the number of Income-tax assessments completed during 1978-79 was mainly, due to the emphasis on not taking into account disposal of N.A. and filed cases. In earlier years the latter category used to account for about one third of disposal. There is also another compensating factor for 1978-79 assessment year, namely increase of about 1,65,000 in respect of the disposal of W.T. and G.T. assessments.

2. During 1980-81, Financial year, the total number of income-tax assessments disposed of has exceeded 40 lakhs. The following measures are illustrative of the steps taken in this respect:—

- (i) Raising of the monetary limit of summary assessments upto Rs. 1 lakh in non-company cases so that a greater qualitative content could be imported in respect of disposal of scrutiny assessments.
- (ii) Authorising the Inspectors of Income-tax for completion of assessments in summary cases upto Rs. 25,000/-
- (iii) Deletion of sub-clause (ii) and (iii) of sub-clause (1) of section 143. This could aid in accelerating the disposal of summary assessments as otherwise even these returns would have to be scrutinised from this angle. However inbuilt checks are



provided through random sample scrutiny a percentage of cases falling under summary assessment scheme. This will ensure that assessee's file their returns correctly and accurately in accordance with the provisions of law.

3. The above measures had their own interaction in the disposal of assessment during the first two quarters of the current year. The number of cases disposed of was 13 lakhs in the first 2 quarters against a disposal of a little over 8 lakh assessments in the corresponding period of 1980-81.

4. Improvement in efficiency is being effected through increased personal involvement of supervisory authorities at all levels. The targets as per the Action Plan are frequently reviewed through discussion by the supervising officers with I.T.Os monthly. In addition to the periodical reporting through the prescribed statistical reports, the Cs.I.T. also report to the Board about the progress in selected fields of work, which includes progress in completion of assessments, through monthly D.O. letters.

[Ministry of Finance O.M. No. (F. 241|2|81-A&PAC-I  
F 228|19|81-ITA-II  
dated 28 Dec. 1981]

## CHAPTER IV

### RECOMMENDATIONS OR OBSERVATIONS REPLIES TO WHICH HAVE NOT BEEN ACCEPTED BY THE COMMITTEE AND WHICH REQUIRE REITERATION

#### Recommendation

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 in spite 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 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 assessments and assessments under other direct taxes.

The above paragraph reveal a very unhappy state of affairs in the Income-tax 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.

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 threadbare their problems and difficulties with a view to improving the administrative efficiency of the Department.

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.

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.

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.

[Sl. Nos. 1 to 8 (paras 1.32 to 1.39) of the Appendix III of the 34th Report of the Public Accounts Committee (1980-81) (Seventh Lok Sabha).]

### Action Taken

There are certain factors which have contributed to the increase in pendency. Some of these are:—

- (a) Imposition of a ban on completion of ineffective cases.
- (b) Shift of emphasis to completion of scrutiny assessments with greater stress on quality. This has resulted in the diversion of senior Assessing Officers to such circles. There has also been increase in the number of Central Circles.

The following steps have, however, been taken to increase the disposals:

- (i) The limit of total income in respect of summary assessments has been increased to Rs. 1 lakh.
- (ii) Legislative changes have been made through Finance Act (2), 1980 to remove some of the bottlenecks which inhibited the pace of their disposal.
- (iii) Inspectors of Income-tax have been authorised to complete summary assessments involving a total income upto Rs. 25,000.

2. For and from the Action Plan for 1979-80, the first quarter of the financial year has been exclusively reserved for completing house-keeping jobs.

Accordingly, no target for disposal of assessments etc. is now being fixed for the first quarter though officers are not pre-empted from making disposals, if they have time to spare. The intention is, that during this period, the officers are also required to attend to the following important items of work, having direct bearing on public relations aspect like:

- (i) Issue of pending refunds; and
- (ii) rectifications claim/appeal effects.

The scope of the Action Plan for 1981-82 has been further extended to cover major audit objections. A target of 100 per cent disposal of arrear audit objections has been fixed. From 1981-82 F.Y. a small percentage of disposal has been fixed for the first quarter also.

3. It may be clarified that under the existing provisions of law, even where income tax returns declaring income below the taxable limit is fixed, the ITO has to be take cognizance of it and frame an assessment. Thus, such in effective cases do constitute genuine workload. Since the bulk of such load falls under the summary Assessment Scheme, wherein the Department is giving its earnest attention, to accelarate the disposal, it is expected that a major portion of such assessments would be disposed of. Moreover the number of officers required to deal with the ineffective cases would be hardly 10 per cent of the total manpower deployed.

4. Issue of notices under section 139(2): The Board has been issuing instructions from time to time emphasising the importance of issuing notices u/s 139 (2). The instructions of the Board were made clear in its Instruction No. 935 dated 17-3-1976 asking the officers to issue notices under section 139(2) in cases where returns are not received voluntarily upto the end of the month of July. These instructions were reiterated in Board's Circular No. 296 (F. No. 220(3)/81-ITA-II) dated the 31st March, 1981 (Annexure A). It may not be, however, out of place to mention that with the insertion of sub-section (1A) in Sec. 139 by the Finance Act, 1974 persons in receipt of salary income not exceeding eighteen thousand rupees and income from sources referred to in Sec. 80L not exceeding Rs. 3,000 are not obliged to file returns of income voluntarily. In such cases it may not be appropriate to issue notices u/s 139(2).

The Board have also issued instructions contained in its letter F.No.201/76/81-ITA.II dated the 25th August, 1981 (Annexure B) expressing serious concern at incorrect reporting of the pendency. Officers have been directed that the correct pendency should be brought on registers on 30th September, 1981.

5. As regards the personal involvement, instructions have been issued from time to time to this effect. During their visits to the field charges, both Members and Chairman have been highlighting, during discussion, about the enduring benefit conferred by personal involvement by senior officers. In one of his recent D.O. letter F. No. 401/11/81-ITCC dated the 21st August, 1981 (Annexure C). The Chairman has also requested the Commissioners to send their monthly report to him about their charge, giving the details of progress under various heads. The report received from the Commissioners are perused and instructions, wherever necessary, are issued.

With the recent addition to the strength of Commissioners and other cadre posts, it is anticipated that the position will further improve.

During their tours, the Members and Chairman also meet the Commissioners and Members of staff to know their actual problem, with a view to redressing them.

In regard to coordination between different direct taxes, instructions already exist emphasising the need for such coordination.

[Min. of Finance O.M. No. F.. 241|2|81-A&PAC-II|F. No. 228|20|81-ITA —II dated 28th December, 1981]

[ COPY ]

ANNEXURE A.

Circular No. 296.

F. No. 220/3/81-ITA.II.

M. K. PANDEY

Government of India

Secretary

Ministry of Finance

Central Board of Direct Taxes,

New Delhi, the 31st March, 1981.

To

All Commissioners of Income-tax

Sir,

SUBJECT: *Supply of return and challan forms to assessee—Instructions regarding—* s

With a view to enabling the tax-payers existing on the registers of the Income-tax Department to file the return of income in time and to avoid inconvenience in approaching the Income-tax Offices for getting the return forms, it has been decided by the Board that from the financial year 1981-82, 2 copies of blank income-tax return forms will be despatched by the concerned Income-tax Officers through ordinary post to all the tax-payers existing on the registers of the Department. While sending the return forms, the Income-tax Officer will also send alongwith it challan forms for payment of self-assessment tax and 2 copies of the statements of advance tax to be made under section 209-A of the Income-tax Act, 1961.

2. It has further been decided that two copies of the Wealth-tax return form should also be sent to all those who are existing wealth-tax assesseees on the registers of the Department alongwith the Income-tax return forms.

3. This arrangement is in addition of existing arrangement of supply of return forms across the counters of the Income-tax Offices and through selected post offices. While mailing the return forms in bulk to the tax payers, notices under section 139(2) or 14(2) are not expected to be issued. However, in cases where returns are not received by the due date, notice u/s. 39(2)/14(2) of the I.T. Act/W.T. Act, alongwith the return forms, will be sent separately through Registered Post or notice servers.

4. A compliance report may be sent by 31st May every year by the Commissioner to the Board to the effect that return forms etc. have been supplied to all the assesseees in his charge.

. Necessary instructions may be issued to all the officers working in your charge urgently .

Yours faithfully,

Sd/-

(M. K. PANDEY)

Secretary, Central Board of Direct Taxes.

Copy to:—

1. All officers and technical sections in the CBDT.
2. All Chambers of Commerce and Industry.
3. Director of Inspection (I.T. & Audit)/Investigation/Research Statistics and Publication, New Delhi.
4. Deputy Director of Inspection (P&PR), New Delhi.
5. Bulletin Section of D.I. (RS&P), New Delhi (3 copies).
6. Joint Secretary & Legal Adviser, Ministry of Law & Justice, New Delhi.
7. Director of O&M Services (I.T.), 1st floor, Aiwan-e-Ghalib, Mata Sundri Lane, New Delhi.
8. The Comptroller & Auditor General of India (40 copies).
9. Director, IRS (Staff College), Nagpur.

Sd/-

(M. K. PANDEY)

*Secretary, Central Board of Direct Taxes.*

[ COPY ]

**ANNEXURE B**

*Most Immediate*

F. N. 201/87/81-ITA.II

Government of India

Central Board of Direct Taxes

*New Delhi, the 25th August, 1981.*

To

All Commissioners of Income-tax (By name).

Sir,

**SUB: Pendency of assessments—Proper accounting thereof—Regarding—**

The Inspection Division of the Board have recently undertaken a sample study to ascertain the accuracy of reporting of pendency of income-tax assessments in the monthly progress report with particular reference to the financial year 1980-81 and the results disclosed are most disappointing.

2. The sample study has revealed that understatement of Pendency of arrears and current assessments are ever to the extent of 100 per cent and more in certain wards Circles. The following modes have been generally adopted for understanding the pendency:

- (a) Voluntary returns filed were not accounted for;



- (b) Pendency of notices issued under section 139(2)/148 have not been accounted for;
- (c) Pendency of re-opened and set-aside assessments were not correctly reported.
- (d) On physical verification number of time barring assessments were increased in the progress report but they were not accounted for in the brought forward arrear assessments as on 1st April.
- (e) Cases received on transfer were not taken into consideration in the Monthly Progress Reports.
- (f) Returns received at the Receipt counters were not sent promptly to the assessing officers.

3. The Board have viewed these lapses with every serious concern. Suppression of actual pendency leads to a misleading impression of the work load which comes in the way of effective planning and there is always a risk of assessment proceedings getting barred by limitation. This also shows utter carelessness on the part of the members of the staff as well as the officers, including the supervisory officers, in sending totally incorrect reports knowing them to be incorrect. The seriousness of the situation is still more alarming as the malady appears to be wide spread which needs stern action.

4. All the officers and their staff working in your Charge may be directed specifically to bring the correct pendency into their registers and reports by 30th September, 1981 positively and the figures in the MPRs for the month of September to be reported in October, 1981 should be 100 per cent accurate.

5. Another study by Inspection team of the Board would be undertaken in the month of October, 1981 and if any discrepancy in this behalf is noticed, strict disciplinary action (including suspension from service) will be taken against the officials concerned.

6. Necessary directions may be issued to all the officers and members of the staff working in your charge urgently. Receipt of this letter may please be acknowledged.

Yours faithfully,

Sd./-

(M. K. PANDEY)

*Secretary, Central Board of Direct Taxes,*

Copy for information forwarded to:

1. P. S. to Chairman and All Members of the Board.
2. JS(FTD)/JS(TPL).
3. All Officers and Sections in the C.B.D.T.
4. Shri B. R. Bhatia & Shri H. N. Mondal, IACs, Inspection Division of the Board for compliance with ref. to para 5 of the above letter.
5. DI(Inv.)/Int./Vigilance/IT&A/P&PR/R&S.
6. OSD, Competent Authorities—Delhi, Madras, Calcutta, Bombay and Ahmedabad.
7. Director, National Academy of Direct Taxes, P.B. No. 40, Nagpur.
8. D.O.M.S. Mata Sundri Lane, New Delhi.
9. Deputy Director (R&SP), Bulletin Section (5 Copies).

Sd./-

(M. K. PANDEY)

*Secretary, Central Board of Direct Taxes,*

[ COPY ]

ANNEXURE-C

JAGDISH CHAND

Chairman

Government of India

Ministry of Finance

Department of Revenue

D.O. F. No. 401|11|81-ITCC Central Board of Direct Taxes

*New Delhi, the 21st August, 1981.*

My dear,

Since taking over as Chairman, Central Board of Direct Taxes, I have been keenly going through the monthly D.O. letters sent to me by the Commissioners of Income-tax by the 15th of subsequent month covering, *inter alia* an objective evaluation of the performance of your Charge upto the preceding month and highlighting any special tax evasion or avoidance devices discovered or successfully tackled in your charge. Such a letter gives you an occasion to review the performance of your officers each month and gives me an opportunity to know at first hand the developments in your charge. I would like you to ensure that such letters not only continue to be sent by you but sent regularly by the 15th of each month.

2. I am enclosing a copy of the report dated 14th August, 1981 received from one of your colleagues, Shri T. R. Aggarwal. The reading of this report clearly shows that the CIT is fully involved in every aspect of the work in his charge. I would like your monthly report to me about your charge to be on similar lines.

3. I can appreciate that such reporting makes an inroad upon your time but I would consider that the time and effort spent by you in preparing such a report every month would be time well-spent.

4. I am sure that you would try to improve upon the performance and the reporting of Shri Aggarwal.

With best wishes,

Yours sincerely,

Sd/-

(JAGDISH CHAND)

Shri

Commissioner of Income-tax.

[ COPY ]

T. R. AGGARWAL, I.R.S.

COMMISSIONER OF INCOME TAX HARYANA

D.O. No. 414(91)/81-82/HQ.

Rohtak, Dated 14-8-1981

Dear Shri Jagdish Chand,

Appraisal of performance during July, 1981 Report regarding-Submission of—

Kindly refer to your predecessors' D.O. letters No. 5207/CH(DTO)/77-78 dated 26th July, 1977 and No. 6377/Ch/(WT)/79 dated 26th of September, 1979 on the subject noted above.

The following chart gives an idea of the performance of this Charge in some important areas upto the end of July, 1981 as compared to the corresponding period of last year.

				Incomer tax	Wealth tax	Gift tax	Estate duty
<b>i. Net collections</b>							
(Rupees in thousands)							
(a) Upto July, 1981	.	.	.	31406	1592	280	626
(b) Upto July, 1980	.	.	.	55016	1910	220	397
<b>ii. Disposal</b>							
		Summary	Scrutiny	Total			
(a) Upto July, 1981	.	13307	3176	16483	538	232	228
(b) Upto July, 1980	.	2941	2652	5593	326	156	164

(a) The disposal of both scrutiny and summary assessments is much higher than last year.

(b) The disposal of summary assessments during the month of July, 1981 works out to 9002 assessment which is roughly 11 per cent of the total workload. Thus, the disposal of summary assessments has picked up

considerably. It is expected to pick up still further in the month of August 1981. Both the IACs have promised to reach a figure of disposal of 10,000 summary assessments each of 20,000 in all *i.e.*, nearly 23 per cent.

(c) Similarly, the net collections of Gift-tax and Estate-duty are more as compared to the collections upto July, 1980.

(d) However, there is a shortfall in Wealth-tax collections presumably due to increase in exemption limit, as this Charge has comparatively smaller wealth-tax cases.

(e) As regards the Income-tax net collections, there is huge difference as compared to last year, but on analysis, it has been found that this is mainly due to the following reasons:—

(i) There is a shortfall in collections of TDS to the extent of about Rs. 59 lakhs which is due to certain special reason *viz.* last year TDS from payments to contractors was exceptionally high in the first quarter as compared to the current year.

(iii) Last year, on verification, it was found that there was large scale duplication of net collections. The mistake was detected in December, 1980 when correct figures of collections were communicated.

Collection/Reduction of entries of arrear income-tax demand raised in 1980-81

3. The Charge has collected/deleted 5950 entries of arrear demand raised during the year 1980-81 out of a total number of 12341 entries. This gives a percentage of 48.2 per cent as against the Action Plan target of 15.3 per cent.

## Achievement of Action Plan Targets.

4.1 This Charge has exceeded the targets in the following areas:—

Sl. No.	Area of work	*Percent - tage of target achieved	Percent - tage of target fixed up to 31-7-1981.
1	Income tax arrear demand . . . . .	15.8%	9.9%
2	Entries relating to demand raised in 1980-81 . . . . .	48.2%	15.3%
3	Wealth tax arrear demand. . . . .	22.5%	%
4	Summary and salary assessments . . . . .	15.6%	15.3%
5	Estate Duty assessment other than those where returns were filed upto 31-3-1976. . . . .	20.7%	10.8%
6	Penalty proceedings . . . . .	7099	7777 to panding be carried forward on 1-4-1982
7	Gift tax arrear demand . . . . .	25.3%	9%
8	Estate duty arrear demand . . . . .	40.5%	9%
9	Estate duty current demand . . . . .	67%	66.2/3%

4.2. However, there are shortfalls in the following areas of work:—

Sl. No.	Area of work	Percent- tage of target achieved*	Percent- tage of target fixed up- to 31-7-81
1	Current Demand of income-tax . . . . .	54.6%	85%
2	Current demand of wealth-tax . . . . .	59%	66-2/3%
3	Scrutiny assessments-income-tax . . . . .	7.4%	13.9%
4	Summary cases selected at random for scrutiny . . . . .	9.3%	18%
5	Set-aside assessments and assessments reopened u/s 146 relating to 70-71 and earlier years. . . . .	11.9%	44%
6	Income-tax time-barring assessments. . . . .	34.3%	47%
7	Wealth-tax assessments of wealth exceeding Rs. 5 lakhs . . . . .	7.1%	14.5%
8	Other wealth-tax assessments upto 1979-80. . . . .	17.8%	18%
9	Estate duty assessments where returns were filed upto 31-3-76 . . . . .	..	18%
10	Gift-tax current demand . . . . .	17.6%	66-2/3%
11	Arrear Major Audit Objections . . . . .	12.3%	18%
12	Current Major Audit objections . . . . .	2%	9%
13	Arrear rectification applications . . . . .		There are 3 petitions pending for more than 3 months

\*The percentage of target achieved has been worked out on the basis of B.F. pendency a. on 1-4-1981 and the expected, workload during the year on the basis of last year's figures..

4.3. The shortfall in current demand is attributable to the fact that the IAC (Asstt.), Rohtak created an additional demand of Rs. 68 lakhs in the case of M/s Nuchem Plastics Ltd. The demand is entirely disputed and the CIT (Appeals) has been requested to dispose of the appeal expeditiously.

4.4. The shortfall in the disposal of scrutiny assessments is due to the reason that current returns have not been received as yet in all cases, and, as such, the total workload available for disposal is comparatively small. Moreover, the number for selection of sample scrutiny assessments during the current year has been allotted in the current month.

#### Reopened and set-aside assessments.

4.5. With a view to expediting the disposal of reopened and set aside assessments relating to the assessment years 1970-71 and earlier years and keeping in view the importance of this work, individual ITOs were called to my office alongwith the relevant files in which such assessments were pending. After detailed scrutiny and discussion with the Officers, guidelines have been given to them which would facilitate disposal of a sizeable number in August/September, 1981.

4.6. Instructions have been issued to all the Income-tax Officers/IACs in this Charge for making good the deficiencies by the end of August, 1981. Apart from this, the Range IACs have also been requested in the recent meeting held on 10-8-1981 to ensure that deficiency is made good in the current month.

#### Budget collection-Maximisation of—

5.1. With a view to reducing the tax arrears as many as 129 individual cases involving arrear demand of Rs. 5000/- and above were reviewed during the month and necessary instructions have been given to the officers concerned for further action. Besides this, requests have been made to the appellate authorities for early hearing of appeals in as many as 24 cases involving huge demands.

5.2. Apart from this, individual cases involving certified demand of Rs. 1000/- and above outstanding in the registers of the TROs in this Charge have been scrutinised and instructions with regard to further line of action viz., issue of show cause notices, attachment and sale of properties, disposal of objection petitions etc. have been issued for ensuring speedy recovery of such demands.

**Survey.**

6. During the month of July, 1981 as many as 6193 premises were surveyed/extracts taken as a result of which 1352 new income-tax and 39 new wealth-tax assesseees have been detected. It may be added that both the external as well as the internal survey is being vigorously pursued in this Charge and various sources are being tapped with a view to detecting as many new assesseees as possible.

**Audit objections:**

7. The position of disposal of Major Revenue Audit objections is as under:—

1. No. of objections pending as on 1-4-1981 . . . . .	109
2. Settled upto 31-7-1981 . . . . .	14
Balance pending: . . . . .	95
No. of cases where final reply sent to A.G. . . . .	47
Balance pending: . . . . .	48*

† Out of this as many as 23 objections have been settled in a meeting held with the DAG on 10th and 11th August, 1981.

* For want of annotated report . . . . .	23
For reply to queries . . . . .	25

**Prosecution.**

8.1. During the month under review, proposals for launching prosecutions were sent to the Board in 6 cases.

8.2. In one case, complaint was filed in the court during the month.

8.3. It has been noticed that, of late, the Board has been rejecting the proposals sent by this Charge on one ground or the other. Recently, a clarification was sought from the Member (Inv.) about a particular case. He was requested to indicate as to whether there was any change in the policy of the Board. The Member reiterated that the policy of the Board remained unaltered, but the proposal had been rejected due to "peculiar facts and circumstances" of the case. This reply does not make me wiser. I do not know the specific reasons for the rejection of my proposal (s). I suggest that wherever a proposal submitted by a Commissioner does not find favour with the Board, especially after it had been considered to be a fit case by the prosecution Counsel, the detailed reasons for the decision of the Board should be intimated to the Commissioner so that he can avoid sending proposals in such cases. If deemed fit, the Board



may also lay down suitable guidelines for the functioning of the member (Inv.).

#### **Steps for intensification of drive against tax-evasion**

9.1 During the month, survey operations u/s 133A were carried out by the A.D.I. in the case of M/s Haryana Scientific Works Delhi Rohtak.

9.2. Apart from this survey operations u/s 133A were conducted in as many as 32 cases by the different ITOs working in this charge at various stations. As a result of this, a large number of books and documents have been impounded and are under investigation.

9.3. From the preliminary scrutiny reports received so far, in 8 cases, concealed income to the tune of about Rs. 5,86,917/- has been detected. This includes concealment to the tune of Rs. 2,16,776/- in the case of Radha Kishan & Co., Ambala and Rs. 1,22,000/- in the case of M/s. Ahuja Textile Corporation, Panipat only on account of excess actual stock in the business premises as compared to stock as per books. Investigation are going on.

#### **Investigation**

10.1. During the month under report investigations were carried out in certain cases in this Charge which has resulted in the detection of following concealments:—

##### **(i) M/s. Inder Ram Anand & Co., Wine Dealer, Faridabad**

The scrutiny of impounded books and documents has revealed that the assessee is making sales outside the books. Consequently, income to the extent of Rs. 5,31,000/- and Rs. 3,88,000/- has escaped a assessment in the assessment year 1980-81 and 1981-82 respectively for which show cause notice have already been issued. Further investigations/enquiries are in progress.

##### **(ii) M/s. Som Nath & Co., Wine dealer, Faridabad.**

In this case, the scrutiny of imponuded books and documents has recalled the following concealments relating to several assessment years:—

(a) Supression of sale to the extent of Rs. 2,76,814/-.

(b) Cash credit of Rs. 3 lacs kept outside the books of accounts.

(c) Expenses to the tune of Rs. 30,000/- unaccounted for in the books.

**(iii) Shri Ram Dev Aggarwal, Advocate**

During the course of investigation it came to light that the assessee purchased an F.D. of Rs. 22,000/- in the name of his son and daughter-in-law. When confronted, the assessee agreed that it represented a gift and no gift-tax had been paid. Further enquiries are in progress.

**Compensation**

10.2. During the month, information was collected regarding enhanced compensation paid in 196 cases to the tune of Rs. 2,52,07,000 out of which the amount of compensation exceeded Rs. 1 lakh in as many as 61 cases. Further enquiries for bringing to tax capital gains/wealth-tax are in progress.

**Investigation of Evasion Petitions**

11. Enquiries were made in the following complaint cases during the month:—

**(i) Dr. Balresh Chhabra Bhiwani**

The enquiries made revealed that the assessee constructed a house at a cost of Rs. 40,000/-. Further, he is earning rented income of Rs. 4200/- and professional income of Rs. 1200/- approximately. Apart from this bank deposits to the tune of Rs. 42,000/- have been found in the name of the assessee and his wife, Dr. Chhabra, is, however, not assessed to tax. The total escaped income is estimated at Rs. 80,000/-. Besides, gift-tax proceedings are being initiated in the case of his father for a gift of Rs. 11,500/-.

**(ii) Sham Lal Jain, Vinod Kumar and Frem Vati**

Enquiries made revealed that the assessee had agreed to sell the house at Rs. 70,000/- for which an advance of Rs. 18,000/- had been taken. However, later on, the house was sold only for Rs. 40,000/- to another person. Escapement of income is estimated at Rs. 30,000/-. Further enquiries are in progress.

**Judicial**

12.1. During the month, exemption u/s.80-G of the Income-Tax Act, 1961 was granted in as many as 10 trust cases.

12.2. During the months, 15 revision petitions were disposed of.

12.3. Apart from this as many as 14 petitions u/s. 273 A were disposed of during the month.

*Salary Section*

13. With a view to gearing up the collections under T.D.S., the Employer's Registers maintained in the office of the Income-tax Officer, Salary were inspected. The members of the staff have been given a fortnight's time to post all the challans so as to detect the defaulters whose cases should be pursued. Letters have also been addressed to persons responsible for paying salary, interest other than interest on securities, dividends, fees in respect of contracts etc. drawing their attention to their obligation under the Act regarding deduction of tax at source and payment thereof into the treasury. This letter has been issued to thousands of such persons and it is likely to yield very encouraging results and also improve public relations.

*Establishment*

14.1. One regular inspection was carried out during July, 1981.

14.2. Three vigilance inspections were carried out during the month.

14.3. One vigilance case was filed during the month.

14.4. The inspection of the office of IAC(Acquisition), Rohtak was also carried out during July, 1981 with a view to streamlining the work of acquisition and suitable guidelines have been given for efficient and smooth working.

*Functioning of Grievance Cell*

14.5. In this connection, Chairman's D.O. letter No. 175/-CH-I/81-IT (A-I) GDS dated 15-7-1981 may kindly be referred to. The Grievance Cell has been functioning in my office since last year. Wide publicity regarding the existence of such a cell has been given in the Newspapers, All India Radio, Rohtak Centre and by showing slides in Hindi and English in cinema houses at various stations in Haryana Charge.

There was no grievance pending in the Grievance Cell in the beginning of July, 1981, 4 grievances were received during the month, out of which 2 have since been disposed of.

*Meeting with the I.A.Cs.*

15. As usual, a meeting with the inspecting Assistant Commissioners of my charge was held on 10-8-1981 with a view to reviewing the Action Plan Targets for the year 1981-82.

Best wishes & regards.

Your sincerely,  
Sd/-  
(T.R. Aggarwal)

Shri Jagdish Chand, IRS,  
Chairman,  
Central Board of Direct Taxes,  
North Block,  
New Delhi.

Copy submitted to Shri G.D. Tandon, Member, Central Board of Direct Taxes, North Block, New Delhi, for information.

Sd/-

(T. R. Aggarwal)  
Commissioner of Income Tax  
Haryana.

### **Recommendation**

The Committee thus find that the Action Plan targets in the above important categories of scrutiny assessment 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 important places. The Department has also been assigning high income access to senior officers designated as IACs (Assessment).

[S. No. 15 (Para 3.21) of the Appendix III of the 34th Report of the Public Accounts Committee (1980-81) (Seventh Lok Sabha).]

### **Action Taken**

The major step taken to augment the disposal of company assessments and higher income scrutiny assessments the creation of new company circles and new posts of IAC (Assessment). These were 262 company circles and 132 posts of IAC (Assessments) as on 1-4-1981 against 194 company circles and 87 posts of IAC (Assessments) as on 1-11-1978.

[Min. of Finance O.M. No. F. No. 241/2/81-A&PAC-II F. No. 228/16/81-ITA-II dated 28 December, 1981.]

### **Recommendation**

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.

[S. No. 16 (Para 3.21) of the Appendix III of the 34th Report of the Public Accounts Committee (1980-81) (Seventh Lok Sabha).]

### Action Taken

It may be stated that the overall disposal of scrutiny assessments has shown an increase during the year 1980-81 to 9,53,757 as against 9,17,776 in 1979-80 and 8,98,162 in 1978-79.

[Min. of Finance O.M. No. F. 241/2/81-A&PAC-II F. 228/16/81-ITA-II dated 28 December 1981.]

### Recommendation

The Committee had earlier in their 51st 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 assessee. 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.

The Committee find in spite of specific instructions issued by the Board, assessing officers continue to adjourn high income group cases without compelling reasons. It was conceded during evidence that to a certain extent, the ITOs 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.

[S. No. 18-19 (Paras 4.8-4.9) of the Appendix III of the 34th Report of the PAC (Seventh Lok Sabha) (1980-81).]

### Action Taken . .

In order to discourage the tendency on the part of the ITOs to grant adjournments on flimsy grounds on the request of the assessee or on their own the proforma of assessment order has been revised by Instruction No. 1395 dated 15-5-81 (Annexure A) on the line of the proforma of the Appellate order which will contain specific column for noting the dates of hearings given in a particular case. This will enable the supervisory officer to keep a check on the number of occasions on which the assesseees were called upon to appear before the ITOs and is expected to have a salutary affect.

2. The Board have also issued Instruction No. 1367 on 18th November 1980 (Annexure B) impressing upon the ITOs to avoid fixing the hearing of cases indiscriminately and mechanically without acquainting themselves in advance as to their requirements. They have been advised to carefully study the file asked for information on specific points to expedite the completion of assessment and to avoid frequent adjournments.

3. No specific study has been conducted in this behalf before issuing these directions, but since complaints were coming from many quarters on this accounts, these instructions were issued. It is hoped that this will improve the position.

[Ministry of Fin. O.M. No. F. No. 241/2/81-A&PAC-II F. No. 228/15/81-ITA-II dated 10 October, 1981.]

### ANNEXURE A

INSTRUCTION NO. 1395

F. No. 201|28|81-ITA. II

Govt. of India

Central Board of Direct Taxes

New Delhi, the 15th May, 1981.

To

All Commissioners of Income-tax.

Sir,

**SUBJECT:—**Proforma of assessment order—Dates of personal hearing—Frequent adjournment—Avoidance thereof—Instruction regarding:

Complaints continue to come to the Board from various quarters of inconvenience to the assessee by the ITOs not adhering to the schedule of hearing fixed by them and not informing them wherever possible, in advance, of the adjournments which are effected due to sudden proccupation of the ITO with other urgent work.

2. The Estimates Committee have also taken note of this fact and it has been decided by the Board that the format of the assessment order should include a column for noting the dates of hearings as in the case of appellate orders. This will enable the supervisory officers to keep a check on the

number of occasions on which the assessee were called upon to appear before the ITOs. It has also been decided that if the ITO due to any unavoidable circumstances cannot adhere to the schedule of hearing, the assessee should be informed in advance either through a letter or through telephone, wherever possible. The information about cancellation or adjournment of hearings should also be displayed on the notice-board outside the office of the ITO concerned and also on the general notice-board of the department for the benefit of the assessee who may come to the department unaware of the cancellation of the hearing.

3. Necessary instructions may be issued to the officers working in your charge.

Yours faithfully,

Sd|-

(M. K. PANDEY)

*Secretary, Central Board of Direct Taxes.*

Copy forwarded for information to:—

1. All officers and Sections of Central Board of Direct Taxes.
2. All Directors of Inspections|Directorate of Organisation and Management Services, Aiwan-e-Ghalib, New Delhi.
3. Director, National Academy of Direct Taxes, P.O. Box. No. 40, Nagpur
4. Bulletin Section of DI (RS&P), New Delhi (5 copies).
5. Comptroller and Auditor General of India (50 copies).
6. O.S.D Competent Authority, SAFOPOMA, New Delhi|Madras/Bombay/Calcutta.
7. Inspection Division of the Board.
8. DI (RS&P), when the next batch of format of assessment order are printed, a separate column for recording dates of hearings should be provided.

Sd|-

(M. K. PANDEY)

SECRETARY, CENTRAL BOARD OF DIRECT TAXES.



[ COPY ]

ANNEXURE 'B'

INSTRUCTION NO. 1367

GOVERNMENT OF INDIA  
CENTRAL BOARD OF DIRECT TAXES

New Delhi, the 18th November, 1980

To

All Commissioners of Income-tax.

Sir,

**SUBJECTS:—**Hearing fixed by the Income Officers for completion of the assessments—Instruction regarding

It has been time and again brought to the notice of the Board that the Income-tax Officers are issuing notices u/s 143(2) indiscriminately and mechanically without acquainting themselves in advance as to what is their requirement. This has been a source of harrassment to the tax payers and also delaying the completion of assessment proceedings, more particularly so in Salary Circles.

2. In the Action Plan for 1980-81, also the Chairman has desired that before fixing up the cases, the files should be studied and requirements specified for the purpose of scrutiny. In cases, which would normally fall under the Summary Assessment Scheme, only a deficiency letter may be issued as required by Board's Instructions No. 1072 dated 1.1.1977 or u/s 139(9) of Income-tax Act, 1961.

3. Where the case is to be fixed for hearing, it will be advisable to either issue notice u/s 142(1) which requires production of certain documents or books or notice u/s 143(3) specifying the point on which the clarification is needed issue of notices u/s 143(2) which requires the assessee to produce evidence in support of his return should not be done mechanically and the Income-tax Officer should be well aware of the points on which he desires the assessee to produce evidence before issue of such notice.

4. The Commissioners and the Inspecting Asstt. Commissioners should make it a point to see during the course of surprise or regular inspections as to whether the notices have been issued mechanically or not. In case some Officers are in the habit of issuing notices mechanically, they may be suitably pulled up.

5. The Board desire that the contents of the above instructions may be brought to the notice of all the Officers working in your Charge.

Yours faithfully,

sd|-

(M. K. PANDEY)

Secretary, Central Board of Direct Taxes, New Delhi.

Copy forwarded to :—

1. Director of Inspection (Investigation) 2 copies.
2. Director of Inspection (Income-tax & Audit) 15 copies.
3. Director of Inspection (Research and Statistics), New Delhi.
4. Director of Inspection (Publication and Public Relations).
5. Deputy Director of Inspection (Bulletin) 3 copies.
6. Comptroller and Auditor General of India (25 copies).
7. All Officers and Sections of Central Board of Direct Taxes  
New Delhi.
8. Joint Secretary, & Legal Adviser, Ministry of Law Justice  
New Delhi.
9. Director of O & M Services (Income-tax), 1st Floor Aiwane  
Ghalib, Mata Sundari Lane, New Delhi.
10. Officers on Special duty, Competent Authority, SAFEPOMA,  
New Delhi/Bombay/Madras/Calcutta.

Sd/-

(M. K. PANDEY)

*Secretary, Central Board of Direct Taxes*

### **Recommendation**

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 MRTP definition. The representatives of the Ministry averred during evidence that surveillance over MRTP 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.

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 everseeing the activities of the monopoly concerns, for directing co-ordinating 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.

[S. Nos. 20-21 (Paras 5.10-5.11) of the Appendix of the 34th Report (Seventh Lok Sabha) (1980-81) ].

### **Action Taken**

The recommendations of the Committee are accepted in principle. As submitted to the Committee, it is not possible for the Dte. of Inspection (Special Investigation), as the Special Cell is now designated, to oversee all the cases of all the large industrial houses. The strength of the Directorate of Inspection (Special Investigation) will be augmented in order that important cases of a few more groups can be overseen by it.

[Ministry of Finance O.M. F. No. 241/2/81-A&PAC-II F. No. 411/7/81-IT(Inv.) dated 10 October, 1981 ]

## CHAPTER V

### RECOMMENDATIONS OR OBSERVATIONS IN RESPECT OF WHICH GOVERNMENT HAVE FURNISHED INTERIM REPLIES

#### Recommendation

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 area 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.

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 Sept. 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 draft 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 capable of being comprehended and understood by the tax payers.

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.

[S.Nos. 37 to 40 Appendix III (Paras 10.7 to 10.10) of 34th Report of PAC (Lok Sabha 1980-81).]

#### **Action Taken**

The observations of the Honourable Committee have been noted by the Ministry and will be kept in view while simplifying the direct tax laws.

[Ministry of Finance O.M. F. No. 241/2/81-A&PAC-II Dy. No. 47-USIC/81 dated 10 October, 1981.]

**SATISH AGARWAL,**

*Chairman*

*Public Accounts Committee.*

**NEW DELHI:**

**July 15, 1982.**

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**Asadha 24, 1904 (Saka)**

## APPENDIX

(Vide Introduction)

### Statement of Conclusions/Recommendations

Sl. No.	Para No.	Recommendations
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Ministry/Department

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1 2 3

1 1.3 Finance Revenue

The Committee desire that final replies in regard to those recommendations in respect of which only interim replies have so far been furnished should be submitted expeditiously after getting them vetted by Audit.

2 1.7 Do

In the 34th Report, the Committee had drawn attention to the large increase in the number of assessments pending disposal during the year 1978-79 as compared to the previous year. As against 15.38 lakh assessments pending at the end of 1977-78 the number had gone up to 19.26 lakhs at the end of 1978-79. The Committee had pointed out that the attempt to translate the concept of 'management by objectives' through the yearly action plans had failed to enthuse the tax collection machinery and to reorient its functioning on purposive lines. The Committee had impressed upon the Department the imperative need for a thorough re-orientation and streamlining of the machinery so as to make it an efficient

tool for realising the objectives of the government. The Committee had stressed that successive amendments of the tax laws would be an exercise in futility as long as the top functionaries of the organisation were not able to motivate properly the field staff as well as those working in the Headquarters towards achieving clearly defined objectives. The Committee had also expressed the view that there was a need not only to tone up the management information system at all levels but also for simplification of procedures. The Committee had emphasised the urgent need for clearing the backlog of assessments under a time-bound programme and had desired the Ministry of Finance to take note of the various lacunae in the implementation of the action plans with a view to effecting necessary improvements without delay.

### 3 1.8 . Finance (Revenue)

The Ministry's reply indicates that summary assessment cases are likely to be disposed of and that with the recent addition to the strength of Commissioners and other cadre posts, the pendency will go down. Further, the disposal will increase because of:—

- (i) raising of the limit of total income in respect of summary assessments cases to Rs. 1 lakh
- (ii) legislative changes made through the Finance Act (2) 1980, to remove some of the bottlenecks which inhibited the pace of disposal and
- (iii) authorising Inspectors of Income-tax to complete summary assessments involving a total income upto Rs. 25,000/-.

The Committee however, observe from the Report of the C&AG for the year 1980-81, Union Government (Direct Taxes) that though the number of assessments completed during the years 1978-79, 1979-80 and 1980-81 was 33.10 lakhs, 34.90 lakhs and 40.35 lakhs respectively, notwithstanding such increases in disposal of cases, the pendency of assessment had gone up. It had gone up from 19.26 lakhs as at the end of 1978-79 to 22.99 lakhs as at the end of 1979-80 and still further to 25.56 lakhs as at the end of 1980-81. It is obvious that the Ministry and the Board are not masters of the work load which it is in their power to manage. Reduction in the number of pending assessments in not the result of mere addition to staff but is effected more by policies designed to keep down scrutiny cases to manageable levels. The Ministry's reply is silent on the causes of the worsening situation in the pendency of cases. The Committee are unable to avoid getting an impression that the Ministry are only taking the easy course of increasing the strength of staff/officers, and are not aware of the need for policies to keep the scrutiny assessments down to levels beyond which even increased staff strength cannot cope with. The Committee recommend that the Ministry should take more purposeful and realistic action in this regard.

A disturbing aspect coming to light from the Ministry's reply is with regard to the incorrect reporting of data by the field formations to the Board. A sample study recently carried out by the Inspection Division of the Board to ascertain the accuracy of reporting of pendency of Income tax assessments, has revealed that under-estimation of pendency, both of arrears and current assessments, is as high as 100 per cent and more in certain wards/circles. In a communication dated 25 August, 1981



addressed to all Commissioners of Income-tax, the Board have *inter alia* expressed their serious concern over such kinds of lapses and have pointed out that "suppression of actual pendency leads to a misleading impression of the workload which comes in the way of effective planning and there is always a risk of assessment proceedings getting barred by limitation. This also confirms the fears of the Committee that the Board and the Ministry are not masters of the work which they are expected to manage and even their information system is not being managed effectively by them. The Committee are firmly of the view that the volume of pending cases is steadily assuming alarming proportions and could soon lead to break down of the system for proper assessment of scrutiny assessment cases. If the staff is burdened by sheer number of pending cases, increasing staff strength will give negligible or only marginal returns disproportionate to the increase in staff strength. Another study by the Inspection team of the Board was expected to be undertaken in the month of October, 1981 and if any discrepancy in this regard was noticed, strict disciplinary action (including suspension from service) was to be taken against the officers concerned. The Committee would like to be apprised of the result of this study and the final action taken on the basis thereof. The Committee recommend that in addition to disciplinary corrective action, the right balance between manageable work load and size of trained and organised staff strength (excluding peripheral staff or additions to staff not contributing significantly and directly to assessment work) be struck realistically by the Board and the Ministry.

The Committee have repeatedly been emphasising in their reports the need for improving the management information system between the Board and the field formations. The findings of the study referred to above have only underscored the Committee's observations. The Committee recommend that the Board/Ministry should get meaningful control over their information system without loss of time and ensure thereby that the recorded information shown in the register is true.

One of the steps stated to have been taken by the Department to augment the disposal of company assessments and higher income assessments (scrutiny cases) with regard to which the Committee had adversely commented in para 3.21 of the 34th Report, is the creation of 68 additional company circles and 45 additional posts of IAC (Assessments) during the period November, 1978 to March, 1981. As a result, the overall disposal of scrutiny assessments is stated to have gone upto 9.54 lakhs in 1980-81 as against 9.18 lakhs in 1979-80 and 8.98 lakhs in 1978-79. The data given in the C&AG Report, 1980-81 (Direct Taxes) shows that as against 10.27 lakh scrutiny assessments pending as on 31 March, 1980, the number of such cases was 8.80 lakhs as on 31 March, 1981. The Ministry's note is silent about the targets prescribed in the action plans for these two years and the extent to which these were realised. Considering the high pendency of such cases, the Committee would stress that much more vigorous efforts should be made to liquidate the arrears. The Committee expect that his aspect will be given serious consideration while drawing up the yearly action plans and the Department would ensure that the targets laid down in this behalf are fulfilled. The Committee would also urge that the performance of IACs (Assessment) who have been specially drafted for looking into the

high income cases and of the special company circles carved out in important cities, should be closely monitored and any lapses found on their part should be taken serious note of and suitable action taken.

8 1.19 Ministry of Finance (Revenue)

The Committee had earlier pointed out that inspite of specific instructions issued by the Board, assessing officers continue to adjourn high income group cases without compelling reasons. It had been conceded during evidence that to a certain extent, the ITOs are to blame for unnecessary adjournments. The Committee had, therefore, recommended 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, which would also allay the misgivings in public mind that frequent adjournments are granted for extraneous reasons. The Committee have now been informed that the Board have issued instructions on 18 November, 1980 impressing upon the ITOs to avoid fixing the hearing of cases indiscriminately and mechanically, they have been advised to study the file carefully and ask for information on specific points to expedite completion of the assessment and to avoid frequent adjournments. However "no specific study has been conducted in this behalf before issuing these instructions, but since complaints were coming from many quarters on this account, these instructions were issued".

The Committee reiterate that sample studies of cases dealt with during the year ending 31 March, 1982 should be carried out by the Directorate of Inspection in each Commissioner's charge and findings thereof should be circulated in the annual conference of Commissioners of Income-tax.

The Committee are surprised at the complacent attitude taken by the Ministry in holding that the mere issue of instructions by the Board will improve matters. The Committee are pained to observe that the poor track record of past achievements gained by issue of instructions by the Board on such matters has not registered with the Ministry.

Considering 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 had in the 34th Report emphasised the need for strengthening the Special Cell of the Directorate of Inspection in the CBDT with a view to making it an effective instrument for verseeing the activities of the monopoly concerns for directing coordinating and expediting the assessments as well as for studying the various methods employed by them to evade/avoid their tax liability so as to make it increasingly difficult for them to dodge the tax dragnet. The Committee are happy to note that the Ministry have accepted the recommendation of the Committee in principle. The Ministry have, however, stated that it is not possible for the Directorate of Inspection [(Special Investigation) (as it is now called)] to oversee all the cases of all industrial houses. The Ministry, however, propose to augment the strength of the Directorate so that important cases of a few more groups can be overseen by it.

The Committee regret that in the Ministry's reply the proposal to augment staff strength of Directorate is not matched by any positive proposal on the extent to which the cell will cover the industrial houses. The Committee would appreciate if the Ministry were to adopt a more positive approach to cover all Industrial houses in a 3 or 5 years cycle and

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go about the work as purposively as with the proposal to augment staff. The Committee recommend that a note on the coverage achieved every year by the Special Cell and the additional revenue realised thereby, and expenditure on staff is reported in the annual report of the Ministry every year.

**PART II**  
**MINUTES OF THE SITTING OF THE PUBLIC ACCOUNTS COM-  
MITTEE HELD ON 25 JUNE 1982.**

The Committee sat from 1500 to 1800 hours.

**PRESENT**

- Shri Satish Agarwal—*Chairman*
2. Shri Chitta Basu
  3. Shrimati Vidyavati Chaturvedi
  4. Shri G. L. Dogra
  5. Shri Bhikhu Ram Jain
  6. Shri Mahavir Prasad
  7. Shri Sunil Maitra
  8. Shri Jamilur Rahman
  9. Shri Ram Singh Yadav
  10. Dr. Sankata Prasad
  11. Smt. Pratibha Singh
  12. Shri Syed Rehmat Ali
  13. Shri B. Satyanarayan Reddy
  14. Shri Kalyan Roy
  15. Shri Nirmal Chatterjee
  16. Shri A. P. Janardhanan

**REPRESENTATIVES OF AUDIT**

1. Shri P. P. Dhir—*Addl. Dy. Comptroller & Auditor General (R)*
2. Shri N Sivasubramanian—*Director of Receipt Audit II.*
3. Shri S. R. Mukerji—*Director of Audit, Commerce, Works and Misc. New Delhi*
4. Shri G. R. Sood—*Joint Director (Reports)*
5. Shri G. N. Pathak—*Director of Audit, Defence Services*
6. Shri R. S. Gupta—*Joint Director of Audit, Defence Services*

**SECRETARIAT**

Shri D C. Pade—*Chief Financial Committee Officer*

Shri K. C. Rastogi—*Senior Financial Committee Officer*

The Committee considered the following draft Reports, and adopted the same with amendments/modifications as shown in Annexures I and II\* respectively:

- (i) Draft 115th Report on Action Taken by Government on the recommendations contained in 34th Report (7th Lok Sabha) on Arrears of Assessments;

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The Committee also approved certain other modifications arising out of factual verifications by Audit in the above Reports.

*The Committee then adjourned.*

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\*Not relevant

**ANNEXURE I**

List of modifications/amendments made by the Public Accounts Committee in the draft 115th Report on action taken on 34th Report (Seventh Lok Sabha).

Page	Para	Line (s)	Modifications/Amendments
10	1·9	9	<i>For "an increases staff" read "increased staff"</i>
11	1·10	17	<i>For "this study" read "this study and the final action taken on the basis thereof"</i>
11	1·11	4	<i>For "formation " read "formations"</i>
11	1·11	4	<i>For "to the" read "to"</i>
13	1·16	2 from bottom	<i>For "carged out" read "carved out"</i>
13	1·16	Last line	<i>Add the following after "monitored": "and any lapses found on their part should be taken serious note of and suitable action taken"</i>
17	1·19	1—6	The sentences "The Committee reiterate..... Commissioners of Income-tax" may be modified <i>read as under:</i>  "The Committee reiterate that sample studies of cases dealt with during the year ending 31 March, 1982 should carried out by the Directorate of Inspection in each Commissioner's Charge and the findings thereof should be circulated in the annual conference of Commissioners of Income-tax"
17	1·19	10	<i>For "port" read "poor"</i>

**P.A.C. No. 902**

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