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STANDING COMMITTEE ON FINANCE
(2021-22)

SEVENTEENTH LOK SABHA

MINISTRY OF FINANCE
(DEPARTMENT OF REVENUE)

[Action taken by the Government on the recommendations contained in Forty-first Report of the Standing Committee on Finance on 'Demands for Grants (2022-23)']

FORTY-EIGHTH REPORT

सत्यमेव जयते

LOK SABHA SECRETARIAT
NEW DELHI

August, 2022/ Sravana, 1944 (Saka)

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(DEPARTMENT OF REVENUE)

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Presented to Lok Sabha on 3.08.2022

Laid in Rajya Sabha on 3.08.2022

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NEW DELHI

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** Not appended in the cyclostyled copy*

COMPOSITION OF STANDING COMMITTEE ON FINANCE (2021-22)

Shri Jayant Sinha - Chairperson

MEMBERS

LOK SABHA

2. Shri S.S. Ahluwalia
3. Shri Sukhbir Singh Badal
4. Shri Subhash Chandra Baheria
5. Shri Shrirang Appa Barne
6. Dr. Subhash Ramrao Bhamre
7. Smt. Sunita Duggal
8. Shri Gaurav Gogoi
9. Shri Sudheer Gupta
10. Shri Manoj Kotak
11. Shri Pinaki Misra
12. Shri Ravi Shankar Prasad
13. Prof. Sougata Ray
14. Shri P.V Midhun Reddy
15. Shri Gopal Shetty
16. Dr. (Prof.) Kirit Premjibhai Solanki
17. Shri Parvesh Sahib Singh
18. Shri Manish Tewari
19. Shri Bala Showry Vallabhaneni
20. Shri Rajesh Verma
21. *Vacant*

RAJYA SABHA

22. Shri Ahmad Ashfaque Karim
23. Shri Sushil Kumar Modi
24. Vacant*
25. Vacant**
26. Dr. Amar Patnaik
27. Vacant$
28. Dr. C.M. Ramesh
29. Shri G.V.L Narasimha Rao
30. Dr. Manmohan Singh
31. Vacant#

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* Vacancy caused due to retirement of Shri A. Navaneethakrishnan, MP from Rajya Sabha w.e.f. 29.06.2022.
** Vacancy caused due to retirement of Shri Praful Patel, MP from Rajya Sabha w.e.f. 04.07.2022.
$Vacancy caused due to retirement of Smt. Ambika Soni, MP from Rajya Sabha w.e.f. 04.07.2022.
\# Vacancy caused due to retirement of Shri Mahesh Poddar, MP from Rajya Sabha w.e.f. 07.07.2022.

SECRETARIAT

1.	Shri Siddharth Mahajan	- Joint Secretary
2.	Shri Ramkumar Suryanarayanan	- Director
3.	Shri Kulmohan Singh Arora	- Additional Director
4.	Shri Preetam Prabhakar	- Committee Officer

INTRODUCTION

I, the Chairperson of the Standing Committee on Finance, having been authorized by the Committee, present this Forty-eighth Report on action taken by Government on the Observations / Recommendations contained in the Forty-first Report of the Committee (Seventeenth Lok Sabha) on Demands for Grants (2022-23) of the Ministry of Finance (Departments of Revenue).

2. The Forty-first Report was presented to Lok Sabha / laid on the table of Rajya Sabha on 22 March, 2022. The Action Taken Notes on the Recommendations were received from the Government *vide* their communication dated 31 May, 2022.

3. The Committee considered and adopted this Report at their sitting held on 28 July, 2022.

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

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

NEW DELHI
28 July, 2022
6 Sravana, 1944 (Saka)

SHRI JAYANT SINHA,
Chairperson,
Standing Committee on Finance

REPORT

CHAPTER I

This Report of the Standing Committee on Finance (Seventeenth Lok Sabha) deals with action taken by the Government on the recommendations/ observations contained in their Forty-first Report of Seventeenth Lok Sabha on Demands for Grants (2022-23) of the Ministry of Finance (Department of Revenue) which was presented to Lok Sabha / Laid in Rajya Sabha on 22nd March, 2022.

2. Action taken notes have been received from the Government in respect of all the 7 recommendations/observations contained in the Report. These have been analyzed and categorized as follows:

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

Recommendation Nos. 1, 2, 3, 4, 5, 6 and 7

(Total- 7)
(Chapter- II)

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

Recommendation No. NIL

(Total :NIL)
(Chapter- III)

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

Recommendation No. NIL

(Total : NIL)
(Chapter -IV)

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

Recommendation No. NIL

(Total : NIL)
(Chapter- V)

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

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

Recommendation (Sl. No. 1)

Budgetary Allocation and Utilization (Demand No. 35)

5. The Committee note that the entire Budget provision under Grant No. 35 of Department of Revenue is for GST compensation to States/UTs and for establishment related expenditure of Secretariat and its attached and subordinate offices. The BE, RE and Actuals for the FY 2019-20, were Rs.203466.73 crores, Rs.243505.77 crores and Rs.275429.93 crores respectively, with an excess expenditure of Rs.31924.16 crores (113.11% of RE). The corresponding figures for the fiscal 2020-21 were Rs.272250.83 crores (BE), Rs.272454.75 crores (RE) and Rs.268877.95 crores (Actuals), with a saving of Rs.3576.80 crores (98.69% of RE). In FY 2021-22 BE was substantially reduced to Rs.201512.64 crores which was further brought down to Rs.209805.42 crores at RE stage while expenditure up to December 2021 was Rs.119408.42 crores, which is only 56.91% of RE. Now, in the current fiscal (2022-23) BE has been pegged at Rs.227552.52 crores which of course is a substantial rise from the previous BE. The Committee while noting these fluctuations in the budgetary figures of the Department of Revenue have been pointing out this recurrent flaw in fiscal planning of the Department in their previous Reports. The Ministry has been tendering routine, unsatisfactory explanations that the quantum of GST compensation required/released is totally based upon the subsumed tax collection by States and collection trends of SGST/IGST and actual GST compensation cess collection and, therefore, it is not possible to estimate the exact budgetary requirement for the purpose of GST compensation. While recognizing the proposition put forth by the Ministry that these figures are variable and depend upon the tax slab and distribution of IGST component decided by GST Council, the Committee would urge the Ministry to make budgetary estimates under this Demand more accurately and realistically for the sake of budgetary discipline, factoring in the monthly trends of net GST collections- both for Centre and States- and quantum of revenue losses incurred by each State as the majority of budget provision under Demand No. 35 is for GST compensation to States/UTs.

6. The Ministry in their Action Taken Reply have stated as under:-

"Parliament Committee while considering the facts submitted by Department of Revenue and recognizing the proposition put forth by the Ministry that these figures

are variable and depend upon the tax slab and distribution of IGST component decided by GST Council. However, Committee has recommended that the Ministry to make budgetary estimates under this Demand more accurately and realistically for the sake of budgetary discipline. Accordingly, all kind of due efforts will be made for timely collection of the subsumed tax and GST collection data/revenue growth trend from States and factoring in the monthly trends of net GST collections- both for Centre and States- and quantum of revenue losses incurred by each State which will be meaningful in estimation of GST compensation and for making budgetary provision under respective head more accurately under Demand No. 35 of Department of Revenue.

However, Committee may like to kindly consider the constraints in estimating the exact budgetary requirement for the purpose of GST compensation in a particular year as the quantum of GST compensation required/released is totally based upon the subsumed tax collection by States and collection trends of SGST/IGST and actual GST compensation cess collection. It is further submitted that the GST compensation released to States for loss of revenue on account of implementation of GST is paid out of the cess collected and credited in the Compensation Fund account and therefore the expenditure incurred on account of release of compensation to States has no impact on CFI."

7. The Committee take note of the submission by the Ministry of Finance (Department of Revenue) that estimation of exact budgetary requirement for the purpose of GST compensation in a particular fiscal is entirely based on the subsumed tax collection by States and collection trends of SGST/IGST and actual GST compensation cess collection. The Committee while acknowledging the constraints in estimating the exact budgetary requirement in this regard would urge the Department of Revenue to initiate all feasible efforts for timely compilation of data with regard to both actual collections and growth trends from States, factoring in monthly trends of net GST collections and quantum of

revenue loss incurred by each State. This would help in making budgetary estimates more accurately and realistically, thereby imparting stimulus to fiscal prudence. The Committee are also concerned about various contentious issues arising out of GST and would, therefore, recommend the Ministry of Finance (Department of Revenue) to set up an exclusive GST Tribunal for settlement of disputes pertaining to GST.

Recommendation (Sl. No. 2)

<u>Demand for Grant No. 36 – Direct Taxes and Demand for Grant No. 37 – Indirect Taxes</u>

8. Under Demand No. 36, the entire budget is for Salaries/ Administrative expenses pertaining to field offices of CBDT (Central Board of Direct Taxes). In FY 2019-20, BE of Rs. 7338.44 crores was increased to Rs. 7520.44 crores at RE stage while the actual expenditure was Rs. 7182.72 crores, with a surrendered amount of Rs. 244.80 crores. In FY 2020-21, BE was increased to 8065.39 crore (despite the fact that Rs. 244.80 crores had been surrendered in the last fiscal) and then brought down to Rs. 7694.00 crores at RE stage and actual expenditure was Rs. 7403.07 crores, with a surrendered amount of Rs. 580.71 crore. Again in FY 2021-22 BE was further increased to Rs. 8532.34 crores then marginally reduced to Rs. 8508.89 crores and expenditure up to December 2021 stood at Rs. 5424.43 crores implying that only 63.75% of RE has been utilized till December 2021. Now in the current fiscal of 2022-23 BE has been pegged at Rs. 9308.80 crores. With respect to Demand for Grant No. 37 pertaining to Indirect Taxes the BE, RE and Actuals for FY 2019-20 were Rs. 7900.50 crores, Rs. 7900.50 crores and Rs. 7535.26 crores, respectively and amount surrendered was Rs. 110.78 crores. The corresponding figures for FY 2020-21 stood at Rs. 8258.50 crores (BE), Rs. 7582.47 crores (RE) and Rs. 7384.21 crores (Actuals), respectively and Rs. 762.11 crores has been shown as amount surrendered. Then in FY 2021-22 BE was massively enhanced to Rs. 21359.27 crores and RE was further upwardly revised to Rs. 74398.99 crore. Total expenditure up to 31 Dec 2021 was only Rs. 5940.98 crores which is a meagre 7.93% of the RE. For FY 2022-23 BE has been set at Rs. 41139.17 crores which again is substantial jump from the last year BE. Analyzing the above set of

budgetary figures, the Committee are perturbed to note such variations in the allocated funds. While on the one side funds are being surrendered at the end of financial year, on the other BE figures are being revised upwards every year. Locking of precious and scarce funds with unrealistic projections and surrendering them with monotonous regularity does not augur well for financial prudence. It is the basic tenet of fiscal planning that amounts sought for are premised on realistic estimations and each and every rupee allocated is spent and fully accounted for. While disapproving this aspect of financial planning of the Department, the Committee recommends that the Ministry should pursue for realistic budgetary formulation, followed by optimal utilization of allocated funds through effective management and monitoring.

9. The Ministry in their Action Taken Reply have stated as under:-

"Demand for Grant No. 36 – Direct Taxes:

I. It is submitted that in the financial year 2019-20 B.E allocation was Rs. 7338.44 Crore which was subsequently increased to Rs. 7343.44 Crore at the RE stage i.e. an increase of Rs. 5.00 Crore only. Further, an amount of Rs. 176.96 crore was received as Supplementary Grant. Thus, against the total allocation of Rs. 7520.44 crore (including Rs. 181.96 crore cash supplementary and Rs. 0.04 crore token supplementary), the expenditure was Rs. 7182.72 crore and surrender amount was Rs. 244.80 Crore. Utilization of funds thus amounted to 95.51% with respect to the total allocation. The lesser expenditure was due to the fact that the notification for Second Supplementary Demand for Grant was received from the Parliament only on 25.03.2020 and therefore funds could be allocated to various BCAs on 25.03.2020. It is also a fact that due to spread of pandemic Covid-19; nationwide lockdown was imposed by the Government w.e.f. 24.03.2020. A number of bills which were already submitted to Zonal Account Offices could not be cleared by them too, due to a paucity of time and manpower because of unexpected situation of Covid-19. Thus, it was an extraordinary situation which was beyond human control. Therefore, the funds remained unutilized and were surrendered.

II. In the Financial Year 2020-21 the B.E. allocation was Rs. 8065.39 crores, which was reduced to Rs. 7694.00 crore at R.E 2020-21 stage by the Budget Division. It would not be out of place to mention that by the time in January 2021, Revised ceiling were communicated, the Revenue grant was reduced to Rs 7492.00 Crores from Rs 7733.39 crores and the Capital Grant was reduced to Rs. 202.00 crore from Rs. 332.00 crores. Thus, a total of Rs 371.39 crores (Rs 241.39 Crores in Revenue Section and Rs. 130.00 crore in Capital Section) was reduced at RE stage attributable to the mandatory deduction amount by the Budget Division. The *total expenditure incurred in F.Y. 2020-21 was Rs. 7403.07 crores which is 96.22 % utilization with respect to RE. The total amount surrendered was Rs. 580.71 crores of which a major part of Rs. 371.39 crores was attributable to the mandatory reduction of the Grant at RE stage. This was rare occasion when total RE was drastically reduced from BE for a particular year. This reduction was due to the decision of Budget Division and original BE grant was downwardly revised at the stage of RE across the Ministries.*

Therefore, the actual savings with respect to Revised grant of Rs. 7694.00 crore was very low i.e. Rs. 209.29 crore, which was mainly due to non-clearance of bills in PFMS at the last moment due to technical reasons. This saving is a total of small utilized amount at the level of more than 1400 DDOs spread all over the country.

III. <u>In the financial year 2021-22</u> B.E allocation was Rs. 8532.34 crore, which was marginally reduced to Rs. 8508.89 crore at R.E stage. Against the total allocation, the fund utilized was Rs. 7700.94 crore and surrender amount was Rs. 770.74 Crore (Revenue Rs. 652.05 Crore + Capital Rs. 118.69 Crore). Utilization of funds thus amounts to 90.50% with respect to RE 2021-22. The expenditure under the object head "Salaries "has been lesser than expectations as few BCAs have informed that numbers of new recruits/TA/MTS staff were expected to join the department and their remuneration was also taken into consideration while giving the projections. Further due to the Corona pandemic, many employees have not opted to take benefits of LTC and there have been lesser claims of EL encashment and /or HTC/LTC by the employees

Further, the expenditure under the object head "Information Technology "OE has been much lesser than budgeted because the expenditure on major projects could not be incurred as clearances/approvals could not be received before the end of the year hence grant earmarked was not utilized and had to be surrendered at the fag end of the year.

The Department is regularly monitoring the allocation/expenditure of the various BCAs and quarterly reports in this regard are being submitted to the higher authorities also. Department remains vigilant and checks the figures of expenditure on monthly basis after obtaining e-lekha statement from the office of the Pr. Chief Controller of Accounts, CBDT, New Delhi. As a result of this exercise, the various Re-appropriation orders (3 in number) were issued during F.Y. 2021-22, withdrawing funds from the object heads where funds remained unutilized and shifting it to the object heads where funds were required. In addition, letters were issued from time to time to the BCAs, directing them to surrender the unutilized funds well in time, so that either the same may be utilized by the other BCAs where funds were in deficit or the same may be reported as surrender in time to *the Budget Division. Beside BCAs have been sensitized about sending accurate estimates of funds and also to ensure optimum utilization of allocated funds.*

Further, for better administrative control and management of the grant, the reorganization of the Budget Controlling Authorities in the Department of Income Tax has been carried out with effect from 01.04.2021 whereby at present 59 BCAs are functioning as against 118 earlier.

Demand for Grant No. 37 – Indirect Taxes:

I. As regards, upward revision of budgetary figures, it is stated that during FY 2020-21 the BE was Rs.8258.50 crore which is just 4.53% more than the BE of Rs.7900.50 crore for FY 2019-20. Further, the actual expenditure during FY 2020-21 was Rs.7384.21 crore against RE of Rs.7582.47 crore, i.e. 97.38% of the RE. The actual expenditure of FY 2019-20 was also 95.37% of the RE 2019-20. The expenditure during FY 2019-20 and 2020-21 could not be reached at the BE level due to various budgetary constraints and consequent expenditure restrictions on account of COVID 19.

II. As regard, massive increase in BE 2021-22 and subsequent increase in RE 2021-22, it is stated that as part of the fiscal discipline, it was decided that amount involved in various duty credit schemes will be provided through Expenditure Budget effective from FY 2021-22. In light of this background, an amount of Rs.13000 crore was provisioned for the Remission of Duties on Exported Products (RoDTEP) scheme for the first time in the Grant of CBIC. Due to this provision, the Budget Estimates for FY 2021-22 were increased significantly to Rs.21359.27 crore. It may be submitted that other than the provision for the RoDTEP scheme, the establishment related expenditure of CBIC was estimated to Rs.8359.27 in the FY 2021-22 against the amount of Rs.7582.47 crore provisioned in RE 2020-21. The BE 2021-22 for establishment related expenditure of CBIC was 10.24% more than the RE 2020-21.

III. At the time of Revised Estimates 2021-22, the Budget Estimates 2021-22 has been significantly increased to Rs.74938.99 crore due to the inclusion of provision for onetime payment of arrears for various scrip based schemes for an amount of Rs.46722.63 crore and provision of Rs.19400 crore for RoDTEP and RoSCTL schemes as detailed in ***Annexure-I.*** *It may be submitted that other than the provision for various scrip based schemes (Rs.66122.63 crore), the establishment related expenditure of CBIC was Rs.8816.36 crore at the RE stage against the amount of Rs.8359.27 crore provisioned in BE 2021-22. Therefore, the variation in RE 2021-22 for establishment related expenditure for CBIC was Rs.457.09 crore only, i.e. 5.47% of BE 2021-22. This establishment related expenditure was mainly increased under Capital Section from Rs.452 crore to Rs.978 crore to meet the additional requirement of funds for residential and office accommodation projects of CBIC during FY 2021-22.*

IV. The expenditure up to 31.12.2021 in the Grant was low due to the reason that Sanction orders in respect of scrips were not issued before 31.12.2021. The data for issuing sanction order was received in the last quarter of FY 2021-22, accordingly Sanction orders to the tune of Rs.49323.44 crore were issued out of the total Budget of Rs.66122.66 crore of scrips. Therefore, the expenditure for various scrip based scheme during FY 2021-22 was 74.59%. Whereas, the total tentative expenditure in the Grant for FY 2021-22 was Rs.57,589.14 crore, i.e. 76.85% against the RE of Rs.74938.99 crore.

V. Budget Estimates of Rs.41139.17 crore for FY 2022-23 includes budget of Rs.31190.31 crore for RoDTEP and various scrip-based schemes. Other than the provision for RoDTEP and various scrip based schemes, the BE 2022-23 provided for establishment related expenditure of CBIC is Rs.9948.86 crore which is 12.84% more than the RE 2021-22. This provision for establishment related expenditure has mainly increased under Capital Section from Rs.978 crore to Rs.1400 crore due to requirement of funds for new and ongoing projects of residential and office accommodation projects of CBIC during FY 2022-23.

VI. Therefore, it may be submitted that the budgetary figures in respect of Grant No. 37-Indirect taxes have fluctuated during FY 2021-22 and 2022-23 mainly due to inclusion of provision for operationalisation of RoDTEP and various scrip based schemes through budgetary mechanism. However, the increase in establishment related expenditure for field formations of CBIC is moderate/nominal as detailed above.

VII.The recommendation of the committee regarding realistic budgetary formulation, followed by optimal utilization of allocated funds through effective management and monitoring are noted for compliance and field formations are being sensitized about sending accurate estimates of funds and also to ensure optimum utilization of allocated funds. For close monitoring and optimal utilization of funds, CBIC has already developed BEAMS application (Budget Estimation, Allocation & Monitoring System) which is fully functional. The operation of Scrip based schemes is also being included in the BEAMS application and its integration with PFMS is also being carried out for proper monitoring of expenditure vis-à-vis budget."

10. The Committee have noted the various reasons put forth by the Department of Revenue with respect to surrender of allocated budgetary grant pertaining to Direct Taxes (Demand for Grant No.36). In the financial year 2019-20, owing to nationwide lockdown imposed by the Government in the aftermath of outbreak and spread of pandemic – Covid 19, number of bills which were already submitted to Zonal Account Offices could not be cleared by them due to paucity

of time and manpower and, therefore, funds remained unutilized and were surrendered (Rs.244.80 crore). In the FY 2020-21, the surrendered amount was Rs.580.71 crore attributable to mandatory reduction of the Grant at RE Stage. Similarly in FY 2021-22, an amount of Rs.770.74 crore was surrendered as the expenditure under the object head "Salaries" had been lesser than expectations as new recruits/TA/MTS staff were expected to join the department and their remuneration was also factored in while giving the projections. Further, due to the corona pandemic many employees did not opt for benefits of LTC and there had been lesser claims for EL encashment. The Committee also note that the Department is regularly monitoring allocation/expenditure of various Budget Controlling Authorities (BCAs) and quarterly reports in this regard are being submitted to higher authorities and that for close monitoring and optimal utilization of funds, CBIC has developed BEAMS application (Budget Estimation, Allocation and Monitoring System). The Committee while acknowledging various efforts being made by the Department for better administrative control and management of the grant, reiterate that amounts sought for should be premised on realistic estimation as far as possible.

<u>Recommendation (Sl. No. 3)</u>

<u>Tax Arrears</u>

11. It is alarming to note that the Department of Revenue seems to be caught up in the vicious cycle of tax arrears, as more than 21 lakh crore (Rs.18,66,790 crore in Direct Tax and Rs.2,95,438 crore in Indirect Tax) are outstanding in the form of Tax Arrears. Further, as far as arrears in direct taxes are concerned, a major part of the demand falls under the category of 'Demand difficult to recover' which constitutes more than 94% of the arrear demand. With respect to Indirect Taxes out of Rs. 2,95,438 crore an amount of Rs. 2,58,672 crore are non-collectible, thereby meaning that almost 88% of the arrear demand is non collectible, and only 12% of that is fit for recovery, but not yet recovered.

The Committee acknowledge that recoveries got affected due to Covid-19 pandemic during FY 2020-21 and 2021-22, as there was an embargo on coercive actions for recovery as well as financial hardships faced by the defaulters. Nonetheless, it cannot be denied that substantial arrears remain non-recoverable which poses serious questions on the administration of Tax Department which has left these tax arrears pending for long. Noting the fact that tax arrears have been increasing year on year, the Committee would recommend for devising a concrete action-plan and a roadmap to clear the backlog through a time-bound fast track mechanism. The Committee may be kept abreast of the action plan and the achievements thereof.

12. The Ministry in their Action Taken Reply have stated as under:-

"DIRECT TAXES:

The Government has put in place various legislative and administrative measures, as well as made special efforts to realise and recover the tax arrears. The same are enumerated as under:

I. A. Legislative mechanism to recover arrear demand:

The Income-tax Act, 1961 (the Act) makes provisions giving powers to Income-tax authorities to ensure timely payment of income tax assessed as per the procedures of the Act. A tax demand is created upon completion of assessment/ re-assessment proceedings under the Income-tax Act, 1961 which culminates into issuance of a notice of demand u/s 156 of the Act towards tax demand raised therein. It is pertinent to mention that the provisions of the law provide for a period of 30 days to the assessee, from the date of service of notice, for payment of these outstanding dues. If the outstanding dues are not paid up within this period and no stay of demand has been sanctioned by the competent authority, the assessee is treated as 'assessee in default/ deemed to be in default' in terms of provisions of section 220(4) & (5) of the Act and the statutory recourse available to Income-tax authorities is as under:

a. *Section 220 (2) gives powers to Income-tax authorities to charge simple interest on assessee for failure to pay the demand as per Notice issued u/s 156;*

b. *Section 221 gives powers to Income-tax authorities to levy penalty on assessees for default or deemed default;*

c. *Section 222 gives powers to Tax Recovery Officer (TRO) to initiate recovery proceedings against assessee in default/deemed default through attachment and sale of moveable /immovable property, arrest and detention in prison, and* *appointing a receiver for the management of the assessee's movable and immovable properties;*

d. *Section 226 provides for other modes of recovery, by giving powers to Assessing Officer (AO) or Tax Recovery Officer (TRO) to recover pending demand from any person who is responsible for holding money to the assessee;*

e. *Section 227 gives powers to the State Government to recover any pending tax, if recovery of the tax in any area has been entrusted to a State Government under clause (I) of Article 258 of the Constitution*

B. *Direct tax Vivad se Vishwas Act*

In order to reduce the huge backlog of cases with locked up arrear demand due to pending disputes, the Direct tax Vivad se Vishwas (DTVSVS) Act was enacted with the objective of, inter-alia, reducing pending income tax disputes, generate timely revenue for the Government and benefit taxpayers by providing them peace of mind, certainty and savings on account of time and resources that would otherwise be spent on litigation process to resolve disputes.

C. *Recent changes in law for reduction of non-recoverable tax arrears due to orders of adjudicating authorities/ Courts etc.*

It was noted that in the cases of business reorganization, instances were found where the Court or Tribunal or an Adjudicating Authority, as defined in clause (1) of section (5) of the Insolvency and Bankruptcy Code, 2016, as the case may be, as a part of the restructuring process, recast the entire liability to ensure future viability of such sick entities and in the process, modify the demand created vide various proceedings in the past, by the Income Tax department as well, amongst other things. However, it was observed that there was no procedure or mechanism provided in the Income-tax Act, 1961 ("the Act") to reduce such demands from the outstanding demand register.

In view of this, the Finance Act, 2022 inserted section 156A in the Act in order to give effect to the orders of the competent authority and to modify such demands in accordance with such directions. As a result of the insertion of this provision in the Act, the demand which has become non-recoverable as a result of the order of such Court or Tribunal or an Adjudicating Authority can be modified so that it does not remain pending anymore.

D. *Offences and Prosecutions under Chapter XXI*

a. *Section 276 gives powers of initiating prosecution against persons for fraudulent removal, concealment, transfer or delivery of property to thwart tax recovery. Such persons shall be punishable with rigorous imprisonment for a term extending to two years and also fine.*
b. *Section 276C provides for prosecution for wilful attempt to evade tax with rigorous imprisonment for a term ranging from (i) six months to seven years and fine where the amount sought to be evaded exceeds INR 25,00,000; (ii) three months to two years and fine, in other cases.*

II. *Administrative mechanism for tax recovery:*

The Government has an action plan for expeditious recovery of tax arrears related to Direct taxes.

i. *The strategies and targets for recovery of arrears of taxes are laid down as part of the annual Central Action Plan document of the Department. The Central Action Plan issued for the guidance of the field formation of Central Board of Direct Taxes (CBDT) provides for an action plan and road map for collection and recovery of arrear demand, giving due priority to litigation management, making senior officers responsible for monitoring of disposal of appeals and clearly laying down activities which are to be completed within a prescribed time-frame. These activities include identification of stay granted matters for vacation of stay and early disposal of appeal, passing of appeal effect and rectification orders, recovery surveys, adjustment of amounts in PD Account against tax arrears, conduct of auction in suitable cases.*

ii. *Targets for collection of arrear demand to each Pr. CCIT region are allocated as per the said Action Plan and the progress of collection is monitored by CBDT on regular basis.*

iii. *Efforts of the assessing officers to recover the outstanding demand are regularly reviewed and monitored. Databases like Individual Transaction Statement and those maintained by other agencies like FIU-IND are made available to the field units for identification of assets for recovery. Guidelines for Tax Recovery Officers for recovery and guidelines to assessing authorities for dealing with stay petitions have been issued. A TRO Manual has already been issued by CBDT for the guidance of TROs in this regard. In case of any refund due, the same is adjusted against the outstanding demand as per procedure.*

III. *Special efforts:*

In order to make focussed efforts and formulate more effective strategies for recovery of tax arrears, a high-level Committee was set up by the CBDT to devise SOP for effective handling and expeditious recovery and reduction out of the *outstanding arrear demand. The report of the Committee has been examined in the CBDT and all the Pr. CCITs were requested to initiate action as per the short-term goals designed on the basis of recommendations of the Committee for recovery of the arrear demand.*

INDIRECT TAXES:

In this regard it is submitted that the recoverable arrears can be liquidated either by recovery or by way of write-off. The Committee has recommended to devise a concrete action plan and a roadmap to clear the backlog through a time-bound fast track mechanism. In this regard, it is submitted that a "Master Circular on Recovery and Write -Off of Arrears of Revenue" issued vide Circular No. 1081/02/2022-CX dated 19.01.2022 by the Board. This 16-page Master Circular has laid down detailed procedures and instructions for recovery of each category of arears as well as all stages of the process of the arrear recovery which are to be followed by the field formations to ensure early and timely recovery of the pending arrears.

As per circular there should be a dedicated "Tax Recovery Cell" headed by a Joint /Additional Commissioner level officer in each Commissionerate. The monitoring of arrear recovery shall be done by the Jurisdictional Pr. Commissioner/Commissioners on monthly basis and the progress shall be monitored by the Zonal Principal Chief Commissioner/Chief Commissioner. The TRC shall review the position of arrears devise and implement the strategy for realization of arrears to liquidate all the cases of arrears, particularly old cases, either by recovery or by write- off in fit cases. Some of the other main points of the circular category wise are as under-

***Cases under litigation**- The Jurisdictional Pr Commissioner /Commissioner will identify all cases of appeal where the department has a strong case or a reasonable chance of success and the amount involved in the arrears is more than Rs. 1 Crore for filing of early hearing applications. Commissioners (Appeals) will take up cases where the revenue implication is Rs. 10 Lakhs or more/recurring nature for immediate disposal.*

***Cases of Restrained Arrears**- The Commissionerate will ensure that claims of the departments are filed timely in all such cases and the cases pending in such authorities should be monitored and approached constantly for their early disposal.*

Recovery of the undisputed cases**- The Pr. Commissioner/ Commissioner, shall identify the property belonging to the defaulter. For tracing the defaulters and identification of their property and its location, the sources of information will include the official record/documents supplemented with human intelligence. Efforts should also be made to find out if other place of business of the defaulter exists anywhere in India. The Jurisdictional Pr. Commissioners / Commissioners will get the inquiries completed at all known addresses of the defaulters to* *ascertain whether he has any moveable or immovable assets that can be identified for recovery. The help of the other agencies and their databases like NSDL, DGFT, DGARM, State Government departments viz electricity board, pollution control board etc and FIU should be taken to identify the properties of the defaulters. Upon identification of the location of the property of the defaulter by the jurisdictional Pr. Commissioner/Commissioner (where the arrear pertained/arisen), the* ***certificate under Section 142 (1) (c) of the Customs Act, 1962 *should be sent only to those Jurisdictional Pr. Commissioners/Commissioners under whose jurisdiction the identified property of the defaulters is located for the following action. For recovery of the dues under these provisions, simultaneous action through district authorities should be taken.*

The Master Circular also lays down guidelines for write off of the arrears where recovery is not possible due to non-availability of any property relatable to the defaulter. For this purpose, the Board has directed to constitute 2-member Committee in each Zone to examine and recommend the proposals of write-off of the irrecoverable arrears.

All the Zones are being instructed regularly to follow these detailed guidelines for arrear recovery to ensure early liquidation of the pending arrears."

13. The Committee note that the Ministry of Finance (Department of Revenue) has initiated various legislative and administrative measures, besides special efforts to realize and recover tax arrears. However, one cannot lose sight of the fact that with respect to Direct taxes 94% of the tax arrear fall under the category of 'Demand difficult to recover', whereas in case of Indirect taxes 88% of arrear demand fall under the category of 'non collectible'. The Committee would, therefore, reiterate their recommendation for a concrete action plan and a clearcut roadmap to clear the backlog in a time-bound fast track mechanism.

Recommendation (Sl. No. 6)

Pendency of Appeal Cases

14. The Committee are extremely concerned about the latest figures of pending appeals, wherein in respect of Direct Taxes nearly 5.6 lakh appeals are pending at different fora with corresponding tax effect (excluding ITAT) of approximately 28 lakh crore. As far as Indirect Taxes are concerned, more than one lakh appeals are pending

at various fora with corresponding tax effect of more than 3 lakh crore. Cumulatively, thus more than 31 lakh crore is locked in appeals at various fora (no tax effect locked up in appeal is maintained by ITAT Registry). In the light of such glaring statistics, the Committee would like to recommend that urgent corrective measures be taken by the Ministry, wherein the Ministry and assesses are restrained from frivolous and speculative litigation. Income Tax Department should also avoid arbitrary tax demand or high pitched demand which gives rise to avoidable tax litigation. Further, the Committee suggest that an initiative to mediate and settle disputes with the Department may also be relied upon in as many cases as feasible.

15. The Committee in their Action Taken Reply stated as under:-

"DIRECT TAXES:

Litigation management is an on-going exercise which is continuously being taken up by CBDT. In this respect section 158AB has been inserted in the Income-tax Act by Finance Act, 2022. Recommendations regarding the same were made during the budgetary exercise. Section 158AB lays down a framework to avoid filing of repetitive appeals by both taxpayers as well as Revenue. Further, guidelines for priority/out of turn disposal of appeals by Commissioners of Income Tax (Appeals) and Commissioners of Income Tax (Appeals) Unit at the request of the taxpayers have also been laid down.

INDIRECT TAXES:

Following steps have been taken to bring down litigation by CBIC:

i. Enhanced threshold monetary limits have been prescribed for filing appeals in various fora (Central Excise and Service tax) vide instruction dated 22.08.2019.

ii. Instruction vide F No. 390/Misc/390/2017-JC dated 15.05.2018 has been issued introducing monetary limit of Rs. 2.5 lacs at the level of Commissioner (Appeals), below which appeals shall not be filed with the Commissioner (Appeals). This limit is to apply for legacy Central Excise and Service Tax matters only.

iii. Vide instruction dated 18.12.2015 field formations were directed to withdraw appeals pending in High Court/ CESTAT, where the Supreme Court has decided on identical matter. Now, this has been extended to appeals pending with Commissioner (Appeals) as well.

iv. Ministry of Finance / CBIC had launched the SVLDRS (SabkaVishwash Legal Dispute Resolution Scheme) with a view to resolve the disputes inter alia in legacy matters in Central Excise & Service Tax matters.

v. CBIC has also instructed its field formations not to contest matters in appeal where the issue has been lost in two stages of appeals. However, appeal in strong cases can be filed with approval of only the Zonal Chief Commissioner.

vi. The field formations have been instructed to forward only those SLP proposals wherein the issue involves substantial question of law or gross perversity or illegality in the appreciating of evidence.

As regards appeals filed by the party, it is felt that curtailing the right in any manner shall be in violation of their right to statutory remedies."

16. The Committee note that *vide* the Finance Act, 2022 Section 158 AB has been inserted in the Income Tax Act which lays down a framework to avoid filing of repetitive appeals by taxpayers as well as the Revenue Department. Although litigation management is an on-going exercise, nonetheless, the Committee are concerned about the large number of pending appeals at various fora, wherein more than Rs. 31 lakh crore of revenue is locked. The Committee while taking note of the efforts undertaken by the Department thus far, reiterate their suggestion that an initiative to mediate and settle disputes with the Department may also be relied upon in as many cases as feasible.

NEW DELHI
28 July, 2022
6 Sravana, 1944 (Saka)

SHRI JAYANT SINHA,
Chairperson,
Standing Committee on Finance

Annexure-I
(Rs. in crore)

S. No.	Scheme	BE 2021-22	RE 2021-22			BE 2022-23			Objective of Scheme
			Provisions for the year	**Provisions for One-time payment of Arrears**	**Total**	**Provisions for the year**	**Provisions for One-time payment of Arrears**	**Total**	
1	Remission of Duties and Taxes on Exported Products (RoDTEP)	13000.00	12454.00	2568.00	15022.00	13699.40	546.00	14245.40	The scheme will ensure that the exporters receive the refunds on the embedded taxes and duties previously non-recoverable.
2	Rebate on State and Central Taxes and Levies (RoSCTL)	0	6946.00	5286.00	12232.00	7640.60	0	7640.60	To rebate all embedded State and Central Taxes/levies for meant for exports of made-up articles & garments.
3	Merchandise Export from India Scheme (MEIS)	0	0	29599.20	29599.20	0	3288.80	3288.80	To provide rewards to exporters to offset infrastructural inefficiencies and associated costs.
4	VisheshKrishi and Gram UdyogYojana	0	0	136.15	136.15	0	90.76	90.76	To compensate high transport costs and offset other disadvantages to promote exports of the Agricultural produce, Gram Udyog products and Forest based products etc.
5	2 percent Additional Adhoc Bonus Incentive for Mobile Phones	0	0	109.80	109.80	0	12.20	12.20	To boost the export of mobile phones.
6	Incremental Export Incentivisation Scheme (Annual and Quarterly)	0	0	82.75	82.75	0	149.90	149.90	To incentivize incremental exports.
7	Served from India Scheme (SFIS)	0	0	6.66	6.66	0	0.00	0.00	To accelerate growth in export of services.
8	Service Exports from India Scheme (SEIS)	0	0	6001.20	6001.20	0	4000.80	4000.80	To promote the export of services from India.

Annexure-I
(Rs. in crore)

S. No.	Scheme	BE 2021-22	RE 2021-22			BE 2022-23			Objective of Scheme
			Provisions for the year	**Provisions for One-time payment of Arrears**	**Total**	**Provisions for the year**	**Provisions for One-time payment of Arrears**	**Total**	
9	Target Plus Scheme	0	0	1549.02	1549.02	0	1032.68	1032.68	To accelerate growth in exports by rewarding Star Export.
10	Focus Product Scheme and Market Linked Product Scheme	0	0	565.68	565.68	0	377.12	377.12	To provide incentive for export of specific products to specific market
11	Status Holders Incentive Scheme (SHIS)	0	0	378.90	378.90	0	169.20	169.20	To promote investment in upgradation of technology.
12	Rebate on State Levies Scheme (RoSL)	0	0	264.00	264.00	0	66.00	66.00	This scheme is now replaced by RoSCTL
13	Focus Market Scheme	0	0	175.27	175.27	0	116.85	116.85	To encourage exports to certain foreign markets in order to enhance the country's export competitiveness in those markets.
	Total	**13000.00**	**19400.00**	**46722.63**	**66122.63**	**21340.00**	**9850.31**	**31190.31**	

ANNEXURE

Minutes of the Twenty-Second sitting of the Standing Committee on Finance (2021-22) The Committee sat on Thursday, the 28th July, 2022 from 1500hrs. to 1715 hrs. in Main Committee Room, Parliament House Annexe, New Delhi.

PRESENT

Shri Jayant Sinha – Chairperson

LOK SABHA

2. Shri Subhash Chandra Baheria
3. Shri Shrirang Appa Barne
4. Smt. Sunita Duggal
5. Shri Manoj Kotak
6. Shri Pinaki Misra
7. Shri Gopal Shetty
8. Dr. (Prof.) Kirit Premjibhai Solanki
9. Shri Manish Tewari
10. Shri Rajesh Verma

RAJYA SABHA

11. Shri Ahmad Ashfaque Karim
12. Shri Sushil Kumar Modi
13. Dr. Amar Patnaik
14. Dr. C.M. Ramesh

SECRETARIAT

1.	Shri Siddharth Mahajan	-	Joint Secretary
2.	Shri Ramkumar Suryanarayanan	-	Director
3.	Shri Kulmohan Singh Arora	-	Additional Director

PART I

2. XX XX XX XX XX XX

XX XX XX XX XX XX.

(The witnesses then withdrew)

PART II

3. Thereafter, the Committee took up the following draft reports for consideration and adoption:

(i) Draft Action Taken Report on the recommendations contained in Fortieth Report on Demands for Grants (2022-23) of the Ministry of Finance (Departments of Economic Affairs, Expenditure, Financial Services, Investment & Public Asset Management and Public Enterprises).

(ii) Draft Action Taken Report on the recommendations contained in Forty-First Report on Demands for Grants (2022-23) of the Ministry of Finance (Department of Revenue).

(iii) Draft Action Taken Report on the recommendations contained in Forty-Second Report on Demands for Grants (2022-23) of the Ministry of Corporate Affairs.

(iv) Draft Action Taken Report on the recommendations contained in Forty-Third Report on Demands for Grants (2022-23) of the Ministry of Planning.

(v) Draft Action Taken Report on the recommendations contained in Forty-Fourth Report on Demands for Grants (2022-23) of the Ministry of Statistics and Programme Implementation.

After some deliberations, the Committee adopted the above draft Reports and authorised the Chairperson to finalise them and present the Reports to the Parliament.

The Committee then adjourned.

A verbatim record of the proceedings has been kept.

APPENDIX

(Vide Para 4 of the Introduction)

ANALYSIS OF THE ACTION TAKEN BY THE GOVERNMENT ON THE RECOMMENDATIONS CONTAINED IN THE FORTY FIRST REPORT OF SEVENTEENTH LOK SABHA ON DEMANDS FOR GRANTS (2022-23) OF THE MINISTRY OF FINANCE (DEPARTMENT OF REVENUE)

		Total	% of total
(i)	Total number of Recommendations	07	
(ii)	Recommendations/Observations which have been accepted by the Government (vide Recommendation at Sl.Nos. 1, 2, 3, 5, 6 & 7)	07	100%
(iii)	Recommendations/Observations which the Committee do not desire to pursue in view of the Government's replies	Nil	0.00
(iv)	Recommendations/Observations in respect of which replies of the Government have not been accepted by the Committee (vide Recommendation at Sl.No. 4)	Nil	0.00
(v)	Recommendations/Observations in respect of which final reply of the Government are still awaited	Nil	0.00