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REPORT
OF THE
TAXES ADMINISTRATION
QUIRY COMMITTEE

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DIRECT TAXES ADMINISTRATION

ENQUIRY COMMITTEE

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DIRECT TAXES ADMINISTRATION
ENQUIRY COMMITTEE,
CENTRAL REVENUES BUILDING,
Indraprastha Marg,
New Delhi, the 30th November '59
9th Agrahayana, 1881 (Saka).

No. DTAEC-59/Ch./2222

From

Shri Mahavir Tyagi, M.P.
Chairman, Direct Taxes Administration
Enquiry Committee, New Delhi.

To

Shri Morarji Desai,
Finance Minister,
New Delhi.

Dear Sir,

I have great pleasure in forwarding herewith the Report of the Direct Taxes Administration Enquiry Committee appointed by the Government of India under its resolution No. 4(59)-58. TPL dated 3rd June, 1958.

2. It will be seen that one of the members, Shri G. P. Kapadia, has submitted a note of dissent. On going through it, the Committee noted that in several places, references had been made to evidence, documents or information which were obtained by the Committee after giving an assurance that they would be treated as confidential and would not be published. The Committee considered that the publication of such material would be a breach of faith and it, therefore, decided that such references should be expunged from the note of dissent. The portions so expunged from the note of dissent have been indicated by asterisks.

3. Shri Kapadia has appended to his note of dissent a pamphlet on the taxation of income on joint stock companies published by the Indian Merchants' Chamber, Bombay and also a printed letter from the same Chamber. The Committee was of the view that as these were printed documents, they should not be allowed to form part of the Report.

4. Since the note of dissent was likely to create a wrong impression about the main Report, the other members of the Committee wanted to add a rejoinder on several points, but on my advice they dropped the proposal. I, however, feel that I must draw your attention to the following important point raised by them.

5. Shri Kapadia's interpretation of the terms of reference and consequently his approach to the enquiry, were different from those of all the other members of the Committee. In his note of dissent, he has discussed such topics as the abolition of the Expenditure-tax, the raising of the minimum taxable limit, rates and incidence of taxation and has made recommendations thereon. As explained in para. 5 of the Introduction to the main Report, all the other members of the Committee were of the view that such questions were clearly outside the terms of reference. In this connection, I would invite a reference to your letter No. 1447-FM/58 dated 19th October 1958.

Yours faithfully,
Sd/- Mahavir Tyagi.

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INTRODUCTION

This Committee was appointed by the Government of India in pursuance of Resolution No. 4(59)/58-TPL dated the 3rd June, 1958, the main part of which reads as under:—

Appointment and terms of reference

“The Government of India have had under consideration for some time the question of having an efficient system of direct taxation which will be sufficiently broadbased and will also be determined according to the capacity to pay. With a view to achieving this end, necessary legislation has been undertaken recently to impose taxes on wealth, expenditure and gifts and the exemption limit for payment of income-tax has also been reduced. The integration of the tax structure has thus been completed so far as legislation is concerned.

2. The entire work in connection with the assessment and collection of these taxes has fallen on the Income-tax Department. This Department was organised for the assessment and collection of income-tax only. In recent years, it has been expanded to take on the new burdens but it is necessary to ensure that the administrative organisation and procedure are such as would secure the basic objectives of the present taxation policy. It is equally important that the administrative machinery should be effective in checking evasion of taxes and function without giving any scope for public complaint.”

2. The Committee consist of:—

Chairman

Shri Mahavir Tyagi, M.P.

Members

Shri Rajendra Pratap Sinha, M.P.

Shri B. M. Gupte, formerly a Member of Parliament.

Shri G. P. Kapadia, formerly President, Indian Merchants' Chamber, Bombay.

Shri K. S. Sundara Rajan, Member, Central Board of Revenue.

Secretary

Shri F. H. Vallibhoj, Commissioner of Income-tax.

3. The terms of reference to the Committee were:—

“To advise Government on the administrative organisation and procedures necessary for implementing the integrated scheme of direct taxation with due regard to the need for eliminating tax evasion and avoiding inconvenience to the assesseees”.

4. Even in the initial stages of our enquiry, we felt that it would be necessary to suggest modifications in the substantive provisions of the various direct taxes Acts for securing the objectives set before us. On a specific reference made by us, the Government clarified that the terms

of reference permitted the Committee to suggest changes in the substantive provisions of the statutes so far as they related to the administration, organisation and machinery necessary for implementing the scheme of direct taxes. Copies of the letters exchanged between the Chairman and the Finance Minister, in this connection, are given as Appendix I to this Report.

5. During the course of our enquiry, representations were made to us by many with regard to matters like the optimum rate of tax that could be levied and other questions relating to the incidence of taxation, raising of the exemption limit for income-tax, the rationale of a tax on expenditure, scope for integrating gift-tax with estate duty and the bringing into the tax orbit of the Central Government, income from agriculture. We have refrained from giving our opinion on them because they are all matters which have a bearing on the general taxation policy of the Government and as such fall clearly outside our terms of reference. We have, therefore, confined our attention, in the main, to the organisational and procedural matters and wherever we have suggested changes in the substantive provisions, they represent modifications which, in our opinion, have a direct bearing on the question of elimination of tax evasion or avoiding inconvenience to taxpayers.

6. Under the Resolution of appointment we were required to submit our Report before 31st March, 1959. However, we have had to approach the Government for extension of time. We had originally fixed 31st of October, 1958 as the date by which replies to the questionnaire should be submitted but, in view of the numerous requests persistently made for extension of the date, it became necessary to wait for a further period of time to get all the replies. Some time had also to be spent on the recording of evidence. Thus, the first ten months had been utilised wholly for the collection of memoranda and the written and oral evidence. As the pace of enquiry progressed, it became apparent that the sifting of the evidence collected, the detailed discussion and formulation of decisions on the various controversial problems and the drafting of the Report would take more time than anticipated and we had, therefore, to request for extension of time. We are grateful to the Government for agreeing to extend time upto 30th November, 1959.

7. There had been a number of important enquiries with regard to the income-tax administration in India, previously. Of the previous enquiries mention may be made, in particular, of those conducted by:—

- (1) the Income-tax Enquiry Committee (1936),
- (2) the Income-tax Investigation Commission (1948), and
- (3) the Taxation Enquiry Commission (1954).

Their reports were of considerable advantage to us.

8. The need for the present enquiry has been succinctly explained in the Resolution of appointment itself. We were assigned the task of suggesting the administrative organisation and procedures necessary for the achievement of the twin objectives of elimination of tax evasion and avoidance of inconvenience to assesseees. At first sight, these two objectives might appear to be directly opposed to each other inasmuch as no effective checking of tax evasion is possible without making detailed enquiries some of which at least are bound to cause inconvenience to the

assesseees. But the success of any tax administration ultimately depends on the degree to which it is able to achieve both the objectives. The manner in which a tax administration secures the legitimate dues of the State by eliminating evasion on the one hand and avoiding harassment to assesseees on the other determines its true quality and efficiency.

9. At the beginning of our enquiry, we felt that it would be useful to elicit the views and suggestions from the public with regard to particular problems which they wanted us to consider in detail provided they were relevant for the purposes of our enquiry and fell within our terms of reference. With this end in view, we issued a press note on 18th June, 1958 inviting a general statement of views from individuals and organisations on the various matters. The memoranda submitted in response to the questionnaire, helped us greatly by highlighting the various problems arising in the administration of the direct taxes. Altogether, 380 persons responded to our press note and their names appear in Appendix II to this Report. Our questionnaire was published on 30th August, 1958. It was divided into 9 parts *viz.*, administration, assessments, refunds, appeals, collection and recovery of taxes, tax evasion, public relations, integrated tax structure and general and contained 112 questions. Copies of the questionnaire were sent to a large number of individuals, both official and non-official and Members of Parliament, trade organisations, other associations, universities and public libraries. They were sent to persons both in India and abroad. A supplementary questionnaire consisting of 32 questions on specific issues was also issued to the Central Board of Revenue, officers of the Department and staff associations. Altogether, 9,931 copies of the questionnaire and 1,282 copies of the supplementary questionnaire were issued. In all, 535 individuals and organisations sent replies to the questionnaire. Besides, we also received informative notes on particular points, relating to the problems covered by our enquiry, from individuals as well as organisations. Copies of the questionnaire, the supplementary questionnaire as well as the list of persons from whom replies and notes were received appear as Appendices III and IV to the Report. We also addressed an additional questionnaire to the Central Board of Revenue containing 45 questions for eliciting detailed statistical information on particular points and the information so gathered has been utilised in the various chapters of our Report.

10. We held meetings from time to time, in all for 105 days, including 36 days spent in the recording of oral evidence between December 1958 and April 1959. We visited a number of places for the recording of evidence. In the course of such visits, we met representatives of the State Governments including Chief Ministers, Finance and Revenue Ministers and their senior officers as well as the representatives of all the leading Chambers of Commerce, trade and other associations. We also met a number of persons with special knowledge and experience of taxation including Members of Parliament, leading Advocates and Chartered Accountants, eminent Economists, senior officers of the Central Government including many from the Department. The tour was also utilised for holding informal discussions with Chambers of Commerce and other organisations as well as the officers of the Department, studying the actual working of income-tax offices and visiting the centres of training for the Central Government officers. The list of persons who gave oral evidence appears as Appendix V to this Report.

11. While on a private visit to U. K., Shri R. P. Sinha, one of our members, had discussions with the senior officials of the Board of Inland

Revenue on the methods, procedures and problems relating to the administration of direct taxes in that country. The information obtained by him has been very useful to us for the purposes of this Report.

12. Our Report is divided into 9 Chapters. In the first chapter, we have discussed in brief the evolution of the integrated structure of direct taxation and made general observations on certain matters which attracted our attention. We have divided our discussion on problems relating to assessments into two parts. In Chapter 2 which constitutes the first part, we have dealt mainly with procedural matters. In the second part, which appears as Chapter 3, we have dealt in detail with specific problems like taxation of income, or wealth accruing abroad which cannot be remitted into the country, depreciation allowances and development rebates, allowance of bad debts, levy of tax on the undistributed profits of companies, registration of firms, re-opening of assessments, taxation of non-resident on the basis of business connection and the problems in valuation of assets arising under the different direct taxes Acts. In Chapter 4, we have dealt with appeals and revisions. We have examined the suggestions made to us with regard to the personnel, methods and procedures of work, appeal rights as well as certain specific problems and given our recommendations with regard to each of them. In Chapter 5 which deals with collection and recovery of tax, we have commented on the arrear position and also made suggestions for the improvement on the present system of effecting collection and recovery both through changes in law and otherwise. In Chapter 6, we have dealt with refunds. Though, generally speaking, all our recommendations have been made bearing in mind the need for eliminating tax evasion and minimising inconvenience to the assessee, we have devoted one chapter—Chapter 7—exclusively for a discussion of special measures necessary for checking tax evasion and avoidance. In Chapter 8, we have critically examined the present administrative set up and made recommendations for improving it in many respects. In Chapter 9, which is the last chapter, we have dealt with the problem of public relations.

13. We desire to record our deep sense of appreciation and gratitude to all the individuals, Associations, Chambers of Commerce and other Organisations who have rendered us valuable assistance by tendering written and oral evidence as well as providing opportunities for our meeting them for informal discussions. Our special thanks are due to the Members of the Lok Sabha and the Rajya Sabha who found it convenient to attend before us and give their views on many an intricate problem. To the State Governments and their officials, we wish to express our gratitude for the help rendered in many ways, including arrangements for our stay. We are grateful to the Central Board of Revenue for the facilities afforded to us and the information furnished from time to time. We are indebted to Prof. Nicholas Kaldor who, while on his way to Ceylon, found it possible to break his journey to meet us and to give us the benefit of his knowledge. We express our sincere thanks to the Board of Inland Revenue and, in particular, to Mr. Ernest Roy Brookes, for the assistance given to Shri R. P. Sinha during the course of his visit to U.K. To the Commissioners of Income-tax, the officers and the staff of the Income-tax Department, we are thankful for their full co-operation and the assistance rendered to us.

14. We are deeply indebted to the Secretary, Officers and Staff of the Committee for the competent and enthusiastic manner in which they

(v)

discharged their respective duties. Our Secretary, Shri F. H. Vallibhoy, rendered us invaluable assistance at all stages of the enquiry by bringing to bear on the work not merely his wide knowledge and experience of direct taxes administration, law and procedures, but also by a high degree of administrative and organising efficiency. In particular, the systematic arrangements made for the recording of evidence and minutes, the preparation and circulation of notes and other papers left nothing to be desired. The Officers on Special Duty, Sarvashri R. S. Mani, D. N. Chaudhri, L. R. Jain and C. Balakrishnan were of great help to us in elucidating the numerous problems that arose from time to time during the course of our enquiry. We are grateful to them and to the staff for their untiring zeal and the extremely arduous labours put in.