

The House reassembled after lunch at two of the Clock. The VICE-CHAIRMAN (SHRI D. THENGARI) in the Chair.

**RESOLUTION RE CONSTITUTION OF A COMMITTEE OF EXPERTS AND MPS. TO GO INTO THE FAILURE OF THE CENTRAL BOARD OF DIRECT TAXES IN THE TIMELY COLLECTION OF TAXES AND TO SUGGEST REMEDIAL MEASURES**

THE VICE-CHAIRMAN (SHRI D. THENGARI) : Shri Lokanath Misra.

SHRI LOKANATH MISRA (Orissa) : Sir, with your kind permission, I beg to move:—

“That this House is of opinion that Government should constitute a committee consisting of experts and Members of Parliament to go into the failure of the Central Board of Direct Taxes, Ministry of Finance, in the timely collection of taxes and to suggest remedial measures for improving the collection system.”

Now, from the direct taxes . . .

PANDIT S. S. N. TANKHA (Uttar Pradesh) : Mr. Vice-Chairman Sir, with a view to enabling the Members of the House to go to the funeral procession of Mrs. Alva, our late, lamented Deputy Chairman, may I have the permission of the Chair to let the House stand adjourned at 2.30?

SHRI LOKANATH MISRA: At 2.35 I have to speak for half an hour.

THE VICE-CHAIRMAN (SHRI D. THENGARI) I should like to know consensus of the House.

HON. MEMBERS : Yes, yes.

SHRIMATI YASHODA REDDY (Andhra Pradesh) : We agree, we should go.

THE VICE-CHAIRMAN (SHRI D. THENGARI) : So, at 2.35. All right.

SHRI LOKANATH MISRA: Under the hour, I am entitled to speak for half an hour. Thereafter, we adjourn.

SHRI DAYALDAS KURRE (Madhya Pradesh) : Mr. Vice-Chairman, the Resolution was in the name of Shri Sundar Mani Patel.

SHRI LOKANATH MISRA: I am sorry, Sir, that the Leader of the House is not well informed about the procedure of the House.

THE LEADER OF THE HOUSE (SHRI K. K. SHAH) : Unless and until you have . . .

SHRI LOKANATH MISRA: It is between the Chair and the Member moving. There is nothing for the Leader of the House to come in between.

SHRI K. K. SHAH: But permission should have been taken.

SHRI LOKANATH MISRA: Unless that is given, the Chair would not have asked me to move it. It is bare common sense.

SHRI K. K. SHAH: You are wrong. The Chair did not say. You got up yourself.

SHRI LOKANATH MISRA: The Chair called me. If the Leader of the House is deaf, I cannot help it . . .

(Interruptions)

Coming back to the business before the House, everybody knows in this country that direct taxes form a major part of the Central revenues, apart from the other aspect of social good that is involved in it. The social good involved in it is that the more affluent section of the society is taxed and the surplus from out of that section is mopped up in favour of people who comparatively are poorer economically and also apart from this, it adds up to the public revenue. I wanted to move this Resolution because I felt that whatever was envisaged to be done through the Direct Taxes Board has not been properly done. A great deal has to be done and whatever has been done, much of it has been wrongly done.

In this connection, I want to quote authorities who are much bigger and important authorities, people who are considered authorities in the country by Parliament and by the Government also. The Administrative Reforms Commission complains that the greatest hurdle in the way of streamlining and rationalising the tax system is the plethora of legislation, in connection with the income-tax. It says:—

“Over two decades there has been a plethora of amendments of the law relating to Income-tax. In 1961, the

whole of the Income-Tax was recast, the provisions arranged in a logical sequence, and an attempt was made to express the law in a language that could be understood without much difficulty. Hopes were expressed and assurances were given that the provisions of the law would remain stable for some time at least. However, in the years that followed, more than 400 amendments were introduced. The Administration naturally has been finding it difficult to keep pace with this incessant change in law. Further, the number of persons falling within the taxable category has progressively been increasing over the years as a consequence of the general rise in the tempo of economic activity in the country."

It is the Administrative Reforms Commission which has been set up by the Government that is complaining about the plethora of legislations. And even the Income-tax Officers must have tendered evidence before this sub-committee of the Administrative Reforms Commission and would have said that it is very difficult to cope with the incessant changes going on from time to time. Somebody would have read the original Act on Income-tax and if he comes to know that there is another amending Act passed by Parliament in between, he would have to rely on the Act as amended and, therefore, this creates a good deal of confusion even among the Income-tax Officers. And what is more, amendments have been thoughtlessly moved in Parliament. And again the Administrative Reforms Commission corroborates my feeling in this matter. The amendments are generally moved at the time of the Finance Bill. Now, by a particular date the Finance Bill has to be passed by both Houses of Parliament and, therefore, this is always done in a hurry. This year I do not know what is going to happen because there is such a lot of chaos—nobody has time to give any thought to matters of administration—that I do not know what would emerge ultimately as the Finance Act. There may be further confusion added to the confusion already existing. But let us look forward and wish for the best. Let us see where it all ends.

Now, Sir, in this confusion the Income-tax Officers are very much impeded in their speed to dispose of the cases. I shall have to quote again another

authority; I do not want to speak from my own authority lest the Leader of the House should get up and say "What is your authority?" I shall quote from Government authorities only or from authorities which cannot be disputed by the Leader of the House or by the Government. It is the authority of the Public Accounts Committee. The Public Accounts Committee says :

"The Committee note that the number of pending income-tax assessments as at the end of 1967-68 was 23.30 lakhs or nearly double the number of pending assessments as at the end of 1963-64. Earlier in the Report the Committee have drawn attention to the need for rationalisation of the procedure relating to assessments and for a proper scheme of priorities for the disposal of cases so that the time now devoted to assessment of small income-tax cases, from which the Exchequer gets very little gain, could be profitably diverted to the examination of business cases which are likely to yield substantial revenue."

So far as wealth tax, which is another direct tax, is concerned, the Committee says :

"The Committee find the position in regard to pending wealth tax assessments rather unsatisfactory as at the end of March 1967, 74,232 cases, involving Rs. 5.22 crores were pending, over half of these for more than two years."

Now, these are so far as pending cases are concerned. And because of the confusion created by the Government, the Income-tax Officers at the lower level are put to a lot of difficulty. The Direct Taxes Board has a responsibility in this matter. They are the principal advisers to the Finance Minister. I do not know how many Finance Ministers in our country really understand finance.

**SHRI: BHUPESH GUPTA :** (West Bengal) One that is out did not understand.

**SHRI LOKANATH MISRA:** To some extent I might agree with you if you say that the one that went out understood a part of finance.

**SHRI BHUPESH GUPTA:** I have not mentioned anybody.

**SHRIMATI YASHODA REDDY:** He has also not mentioned anybody.

**SHRI LOKANATH MISRA:** As I was saying, the Board is an expert body which is supposed to advise the Government on these matters—matters of legislation, matters regarding streamlining, and so on. They have absolutely failed in their duty in not advising the Government properly and have thus put the entire system of direct taxes into a mess, so much so the Government did not have any other way out but to refer this matter to two bodies. One was the Boothalingam Committee and subsequently it was referred to a sub-committee of the Administrative Reforms Commission. And unless the system of direct taxes had been in a mess, the Government would not have thought of referring this matter to two high-powered committees. To add to that, there are many comments, very adverse comments, by the Public Accounts Committee. Sir, in the Seventy-third Report of the Public Accounts Committee, there are many adverse comments on the mismanagement in the Direct Taxes Board.

**SHRI DWIJENDRALAL SEN GUPTA** (West Bengal): Mismanagement everywhere.

**SHRI LOKANATH MISRA:** Yes, there is mismanagement everywhere, but more here, and I have to emphasise it here because this is one of the main sources of income. Naturally this has to be streamlined. What I want to say is that some streamlining is necessary and, therefore, I have suggested that a committee should be appointed finally to go into these things; this committee would consist of Members of Parliament who would be considered respectable so far as their membership in that committee is concerned and technical people, people who have knowledge of finance, so that the technical assistance would be of great help to the committee in determining what their suggestions should be. This is so far as cases of assessment are concerned.

There is further bungling so far as arrears are concerned. Very often the Income-tax Officers, in order to satisfy their senior officers who impose an arbitrary quota on them, have to indulge in frivolous assessments at times. The

quota normally imposed is 25 per cent higher than the previous year. They have to find a scapegoat. Otherwise, if they do not comply with the quota of assessments given to them, they would be prevented from getting promotions. Therefore, a lot of paper work is done and the entire amount shown as arrears is fictitious. That is why they are not able to realise their arrears. Therefore, there is so much talk of writing off these arrears. This is because the Income-tax officers are obliged to show a figure which is completely fictitious, erroneous and unreal and which they know they would not be able to realise; but they show it because they have to satisfy their senior officers and fulfil their quota. This, Sir, is very irregular and at the same time very dangerous. Sir, here our Finance Minister is talking to the Leader of the House and probably does not understand finance also. Mr. Finance Minister, would you kindly listen to my speech? It is your duty to listen to the speeches in the House and not talk to the Leader of the House.

**THE MINISTER OF SUPPLY AND THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI R. K. KHADILKAR):** Would you like to repeat the arguments that you are placing before the House? I am prepared to listen.

**SHRI LOKANATH MISRA:** I thought you understand something of finance. My feeling now is that you do not understand finance at all. What can I do?

**SHRI R. K. KHADILKAR:** I am listening very carefully. Otherwise, how can I reply?

**SHRI LOKANATH MISRA:** You will not reply. The Central Direct Taxes Board would give you a brief for reply.

**SHRI R. K. KHADILKAR:** I do follow your arguments also.

**SHRI BHUPESH GUPTA:** Mr. Finance Minister, you should know beautiful things are being uttered.

**SHRI LOKANATH MISRA:** My time is running out. I would like to have five minutes more.

The point I am stressing is that there is bungling in the case of arrears also. It is all a fictitious figure and I would quote authorities to show that these are fictitious

figures. The Finance Minister, who is very new to the Department—I will excuse him for that—has not probably gone into the Administrative Reforms Commission report... (*Interruptions*) There are interruptions because they do not want me to tell all this.

THE VICE-CHAIRMAN (SHRI D. THENGARAJ): Kindly continue.

SHRI LOKANATH MISRA: What I wanted to stress was that the Administrative Reforms Commission itself has said that ultimately probably these arrears will have to be written off. Unless these are written off, it goes on in a vicious circle. The previous things have not been dealt with properly and what is done further is that before the deadline is up—there is a deadline for income-tax 31st March or 30th June or whatever it is—the Income-tax Officer, in order to save his skin, imposed income-tax assessments towards the end of the year, so that there cannot be any appeal and the amount shown as assessment already, cannot be taken off the list. That why normally it is always done towards the end of the year. Now I will quote this authority—it is the Public Accounts Committee—

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

Sir, how is the Department functioning for such a long time? We are independent for 20 years now. But the Department has been existing therefor, may be, 60 or 70 years. I do not know its history nor do I want to go into it. But the Department has been functioning there. Was there not one adviser in the Department who could look into the matter before it came to the notice of the Administrative Reforms Commission or to the notice of the Public Accounts Committee? What were the officers of the Department doing?

They are supposed to be experts in the line. Was it not their duty to find a way out so that the arrears did not pile up? Or, did the piling up of arrears benefit them in any way? The writing off arrears would also involve a lot of things, and unless something, some consideration, was offered by somebody, the arrears would not be written off. Shall I take it like that? If they knew that this was an arrear and was to be realised, why did they put off its collection so long? And if they knew that it was not to be realised, why did not they write off that *suo motu* without asking the man to come and submit to them an application or some other thing for writing off the arrears? That is where the guilt of the Direct Taxes Board lies. Therefore, on this measure also without looking into the cases of arrears of income-tax as to how much of the amount is genuine, how much of it is fictitious, how much has been shown just for giving credit to certain officials, on the floor Parliament these enormous tax arrears have been shown for year after year. Now I will quote another authority. This is an authority of the Central Board of Direct Taxes and it gives the figures:

Gift Tax Arrears: Rs. 1,24,14,000. When they went in appeal an amount of Rs. 20 lakhs was reduced. And what is the amount of outstanding arrears? Rs. 76 crores.

Now, Sir, this huge amount outshadows both their collection of arrears and the cash collection and the reduction that was allowed on the amount of arrears.

Expenditure Tax: Rs. 35,35,000 was the arrears. Rs. 3,94,000 was reduced and Rs. 2,03,000 was realised and Rs. 29,00,000 is still outstanding.

Wealth Tax Rs. 7,57,00,000 was the arrears. Rs. 99 lakhs was reduced and Rs. 13 lakhs was realised and Rs. 5,00,80,000 is in arrears.

So far as Income-Tax is concerned, the figure is almost the same.

Sir, my time is running out. Therefore, I cannot quote from other things. But everywhere it gives us an appearance of complete mismanagement and bungling. Therefore, I plead that the House do agree with me that a committee of Members of Parliament and experts should go into it. Sir, this is the general observation I had to make regarding this.

[Shri Loknath Misra]

I will now come to certain specific cases. The most recent one in this bungling is the case of Mr. Jagjivan Ram.

Mr. Jagjivan Ram is (1) a member of the Union Cabinet. . .

SHRI MULKA GOVINDA REDDY (Mysore): He is No. 3 in the Cabinet.

SHRI LOKANATH MISRA: Whatever may be his lineality, in the present context I am not going into that. He is—or he was—one of the respected leaders in the country. I used to respect him so much till I know that he was a tax evader. When I knew that he was a tax evader he came down in my esteem as Mrs. Mala Sinha had come down when she was caught with Rs. 20 lakhs in her bathroom. Mr. Jagjivan Ram did not have to go into his bathroom because. . . (Interruptions) Mr. Vice Chairman, please give me ten minutes more because there have been interruptions and I have to reply to every interruption. . .

SHRI N. PATRA (Orissa) : You are interested in Mrs. Mala Sinha.

SHRI LOKANATH MISRA : I am as much interested in Mr. Jagjivan Ram as in Mrs. Mala Sinha. Both are actors in different fields, and they change so much their character in different contexts. She changed in films and he changed on the political stage. But it does not matter. We are not going into that. Sir, but for the interruption of the Member who belongs to the ruling party, I would not have commented this way.

Now, coming back to my point, what I wanted to say was Mr. Jagjivan Ram did not have to go into his bathroom as Mrs. Mala Sinha did because he was one of our national leaders. But what happened? The Prime Minister. . . (Interruptions) You can ask me any number of questions, but I have to look at the clock also.

THE VICE-CHAIRMAN (SHRI D. BHENGARI) : You continue unmindful of the interruptions.

SHRI LOKANATH MISRA: Sir, unfortunately I am a Member who cannot ignore any interruptions on the floor of the House. . .

SHRI BHUPESH GUPTA: How can you? You are interested in Mala Sinha.

SHRI LOKANATH MISRA: I have to reply to the interruptions.

So, what I wanted to say was the Government of India did not protect Mala Sinha, but the Government of India had full protection for Mr. Jagjivan Ram. The Prime Minister in one of her statements made a very categorical reference to the tax evasion on the part of Mr. Jagjivan Ram in the Press Club of India. She said it is an act of forgetfulness. I would not be surprised if tomorrow Mr. K. K. Shah shoots someone and the Prime Minister comes and explains to us in the House that on the part of Mr. K. K. Shah it was an act of carelessness, it was not a murder. It was an act of carelessness because the trigger went off when he was toying with the revolver. . .

SHRI BHUPESH GUPTA: He is never a good shot. He will miss it in any case.

SHRI LOKANATH MISRA: I hope so

SHRI K. K. SHAH: Are you prepared for a match?

SHRI LOKANATH MISRA: Now, the Prime Minister's apparent attempt at giving protection to Mr. Jagjivan Ram was very frivolous. That showed that she had not intently looked into the affairs of the Finance Ministry nor did she know the rules and regulations of the Finance Ministry. She is too big. Therefore, I would not make an aspersion on her ignorance of the Finance portfolio, on her ignorance of matters relating to the Finance portfolio. But, Sir, Mr. Jagjivan Ram definitely knew what he was doing. Mr. Prakash Chandra Sethi the other day said in our House that nobody sent any notice to Mr. Jagjivan Ram. Other people are served with registered notices in all such cases. It was asked on the floor of the House whether registered notices were sent to Mr. Jagjivan Ram or not because everybody is bound to be served with a notice, that too, a registered notice. Did Mr. Jagjivan Ram remain underground for ten years, or, was he invisible? Do you mean to say that he went underground for all the ten years? In an act of forgetfulness did he ever forget to draw his salary for a month? Can you show me an instance when he had forgotten to draw his monthly salary? I will excuse him if he had forgotten to draw his salary for a month. Every rupee and pie that is due

to him, he will try to collect it from the exchequer. When it is a question of repayment to the exchequer, can you take this bogus plea of forgetfulness and that too on the part of a leader of Shri Jagjivan Ram's stature? The country can never excuse him. Therefore, the Minister has to clarify the position to this House

(Interruptions).

**SHRI DAYALDAS KURRE :** Sir, I do not agree with the remark made by Shri Lokanath Misra. The position has already been made clear by the Minister day before yesterday.

**SHRI LOKANATH MISRA :** Sir, I am not yielding. On this Resolution I am already on my feet and I am in possession of the House. The point is that the Minister has to give a categorical reply to this question whether under section 139 (2) the notices were served on him by the Income-tax Officer and that too every year. If Shri Jagjivan Ram had gone underground or was in his bathroom, what was his Private Secretary doing or what was his Personal Assistant doing? He is supposed to have a permanent staff for his office. What were they doing?

**SHRI S. D. MISRA (Utar Pradesh) :** For two years he was under the Kamraj Plan.

**SHRI LOKANATH MISRA:** For that period we can excuse him. But the conduct of a Minister should not be explained away in that way and that too by the Prime Minister.

Now I will deal with the penalty that he had to pay. Anybody else in the position of Mr. Jagjivan Ram, so far as income-tax is concerned, would have been fined an enormous amount by way of penalty. The penalty under the law is 2 per cent. per month, and he had defrauded the Government of India for 10 years. What was the penalty imposed on him? Was the discretionary power given to the Commissioner to only absolve Shri Jagjivan Ram of his penalty? If that is so then I would plead that such a Commissioner should be stripped off that particular discretion if it is only to be used in favour of persons who are in authority. (Interruptions) please try to understand the implications of a particular matter. Let him get a brief from certain experts and reply to my questions.

Sir, the point that I was making was that he should have been charged the penalty. I would like to know the penalty that was charged in this case.

The next point is about the Wealth Tax. He has different houses at different places and other properties. That would be yielding him sufficient income to make him assessable to income-tax. But as a Minister he is paying income-tax at source. That is a wrong thing. And every Minister is being given that particular facility so that he can conceal his income from other sources, because he does not have to submit any other income-tax return. Now under sections 15 and 192 the definition of 'salary' is given. If you plead that a British Minister is a servant of Her Majesty the Queen and if you want to go by that, then I have nothing to say. But that does not hold good in the case of our democracy here. Unless you have an employer there cannot be any deduction at source. Therefore no Minister in our country can enjoy this benefit of deduction of tax at source. If that is not done, then their perquisites will also be taxable. Therefore they want to avoid it as far as possible. I will take it up—the general issue—later on. But what happened to the Wealth Tax of Shri Jagjivan Ram? What is the amount that he has paid? Political associations should not determine whether a particular person is assessable or not. There is another instance of Shri Biju Patnaik. The hon. Prime Minister has been kind enough to write to me that there is already an income-tax arrear of about Rs. 1 crore odd against Mr. Biju Patnaik's concerns. The third person—I was told before my speech—was Mr. Karunanidhi. He did not submit his tax return, and immediately after their gesture towards a new alignment I am told everything has been finalised and the income-tax arrears have been finalised in respect of Mr. Karunanidhi. I would like the Minister to categorically deny if I am wrong. This is the information I gather. I have no personal knowledge about it, but if my information is incorrect, I shall stand corrected—if the hon. Minister gives me that information. Now Sir, the other one is Mr. T. T. Krishnamachari. He is also getting some political concessions so far as his Wealth tax is concerned. Now looking into all these cases it appears that the entire Central Board of Direct Taxes is in a mess, bungling the entire thing of direct tax issue. The pattern should be changed as the House should agree with me in giving

[Shri Loknath Misra]

their permission for the constitution of the committee. I would like this to be taken up.

Just two minutes more, Sir, and this I place also by way of suggestions. (1) It will be helpful if small amounts of tax are accepted in cash by the I. T. Os. This is for the consideration of the Committee when they go into it. (2) It would also be of help if the payment of tax could be arranged without approaching the I. T. O. for a challan for this purpose. (3) The present practice of the Department sending a challan to the assessee and of the assessee having to take the trouble of making the payment into the treasury should be given up. (4) Incomes not exceeding Rs. 10,000 may be assessed on the basis of the return submitted by the assessee. (5) In the case of higher incomes not exceeding Rs. 50,000 it is suggested that here also the assessments may be made on the basis of the return submitted by the assessee. A spot check once in, say, three or five years need not however be ruled out. And the last suggestion. (6) While stating figures of income-tax arrears in Parliament, three separate types of figures must be

mentioned so as to make the position quite clear, namely (a) amount of tax assessed by the Department but against which appeal preferred is pending, (b) amount of tax levied by the Department for which the last date for payment has not yet expired, and (c) amount of tax arrears for which no appeals are pending and for which the last date of payment has also expired. With all this, Sir, finally I would submit that, since all these irregularities in the Board of Direct Taxes have to be looked into and that too seriously by a competent body whose recommendations would be binding on the Government, I would plead with all the hon. Members of the House that they give permission for the formation of such a Committee.

*The question was proposed.*

THE VICE-CHAIRMAN (SHRI D. THIENGARI) : The House stands adjourned till 11 A. M. on Monday.

The House then adjourned at forty-one minutes past two of the clock till eleven of the clock on Monday, the 24th November, 1969.