Before 1922, there were few whole time Income Tax officers. Except for a few places, income tax work was largely done by Land Revenue officers as subsidiary duty. The 1922 legislation had, for the first time, effectively centralized administration of the department and a Board of Revenue was created. The Central Board of Revenue took its place in 1924 and in due course, a regular hierarchy of officers acting under the control of the Board and the Provincial commissioners was constituted.

For the first time, proper nomenclature was given to the officers of the Department and a hierarchy was fixed. Section 5 of this Act specified four categories of Income Tax authorities.

(I) The Board of Inland Revenue.
(II) Commissioners of Income Tax.
(III) Assistant commissioners of Income Tax.
(IV) Income Tax Officers.

The constitution of India empowers the legislature to enact and enforce tax laws. At present the Income Tax Department under the Department of Revenue in the Ministry of Finance administers the following Direct Tax laws (The Gift Tax Act and the Estate Duty Act which were also administered by the Income Tax Department in earlier years have now been repealed).
As the Income Tax administration grew out of the provincial revenue machinery, recruitment of officers became a very important task. The first recruitment under the 1922 Act was mainly from such revenue personnel who had been associated with the assessment and collection of Income Tax in each province.

Persons with similar qualification entered in one province in non-gazetted grade while in another province, they directly entered the gazetted ranks and this created obvious inequalities in recruitment.

The Ayers Committee (1936) took note of it and recommended a uniform scale of pay and the introduction of three grades of Income Tax officers.

(I) Assistant Income Tax Officers.
(II) Income Tax Officers.
(III) Senior Income Tax Officers.

Prior to the year 1922, Commissioners were appointed by the Governor General-in-Council. They were the provincial Heads of Income Tax Administration. Upto 1939, they were either recruited from I.C.S. or were

<table>
<thead>
<tr>
<th>NATURE OF TAX</th>
<th>STATUTE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income Tax</td>
<td>Income-Tax Act, 1961</td>
</tr>
<tr>
<td>Wealth Tax</td>
<td>Wealth-Tax Act, 1957</td>
</tr>
<tr>
<td>Interest Tax</td>
<td>Interest-Tax Act, 1974</td>
</tr>
<tr>
<td>Expenditure Tax</td>
<td>Expenditure-Tax Act, 1987</td>
</tr>
</tbody>
</table>
General Pool Officers. Only sometimes, they were taken up from the cadre of Assistant Commissioners of Income-tax.

**TRAINING** :- In any progressive economy, the methods of training the personnel of any department, both at the orientation level and in-service training, have to be kept, forever under constant review. For Income Tax Department, where fast changing laws have to be administered, this aspect of administration cannot be over emphasised. Yet upto 1976, although reasonably good arrangements had been made for training gazetted staff, no arrangements worth the name, existed for training the non gazetted members of the staff, who have to carry the burden of entire file set up at various stations for the training of the ministerial staff. This was a new feature and it was welcomed by all. To cater to the needs of training Income Tax officials National Academy of Direct Taxes had been established at Nagpur. However there is no system for evaluating the usefulness of the training.

For the discharge of executive and appellate functions relating to the administration of the existing Income Tax Act various categories of Income Tax authorities were reconstituted w.e.f. 1st Oct, 1998.
HIERARCHY OF INCOME TAX AUTHORITIES: - The following Income Tax authorities have been constituted under the Act to discharge executive and administrative functions:

- The Central Board of Direct Taxes.
- Director General of Income Tax or Chief Commissioner of Income Tax.
- Directors of Income Tax or Commissioners of Income Tax.
- Commissioners of Income Tax (Appeals).
- Additional Directors of Income Tax, Additional Commissioners of Income Tax or Additional Commissioners of Income Tax (Appeals).
- Joint Directors of Income Tax or Joint Commissioners of Income Tax.
- Deputy Directors of Income Tax, Deputy Commissioners of Income Tax or Deputy Commissioners of Income Tax (Appeals).
- Assistant Directors of Income Tax or Assistant Commissioners of Income Tax.
- Income Tax officers.
- Tax Recovery officers.
- Inspectors of Income Tax.
CBDT is the highest executive authority constituted by the Central Board of Revenue Act, 1963 which came into force w.e.f. 1st Jan, 1964. It has the power to make rules for the purpose of this Act. The Government of India may appoint as many Director Generals or Directors or Joint Directors of Income Tax as it think fit. They are generally in charge of research, vigilance, inspection, investigation and exemption.

Chief Commissioners, Commissioners and Joint Commissioners of Income Tax are appointed by the Central government. They perform their functions in respect of such areas, or of such persons or classes of persons, or such income or such cases as the Board may direct.

Deputy Commissioners of Income Tax are appointed by Central Government. The function of Deputy Commissioner (Appeals) is to make assessment
on the assessee and supervise the work of Income Tax officers.

The Assistant Commissioners are also appointed by the Central Government. They are directly under the control of the Commissioners or Joint Commissioners and perform such functions regarding assessment, survey etc., as may be assigned to them by the former.

Income Tax officers are of two types. Class I and II. Class I Income Tax officers are appointed by the Central Government while Class II Income Tax officers are appointed by the Chief Commissioner or the Commissioner of Income Tax subject to the rules made by the Central Government. He is generally the actual assessing officer who initiates assessment, calls for a return from assesses within his jurisdiction, makes the assessment, collects revenue and grant refund.

Inspectors of Income Tax are appointed by the Commissioners of Income Tax and perform such functions in the execution of the Income Tax Act as are assigned to them by any other income tax authority under whom they are appointed to work.

**ROLE OF INCOME TAX DEPARTMENT IN LEVY, ASSESSMENT AND COLLECTION OF TAX:**
The role of Income Tax Department is manifold. The Indian Revenue Service officers are responsible for
administering fiscal laws like the Income Tax Act, Wealth Tax Act, Interest Tax Act, and Expenditure Tax Act. The role of Income Tax Department is briefly highlighted below:

(I) To collect tax.
(II) To detect and deter tax evasion.
(III) To advise people of their rights and duties related to income tax.
(IV) To help Government in achieving socio-economic objectives through planned tax legislation.
(V) To negotiate and implement Double Taxation Avoidance Agreements.

ASSESSMENT PROCEDURE AND INTRODUCTION OF SUBSEQUENT FLEXIBILITY:

In order to understand the assessment procedure it is necessary to re-iterate the machinery for assessing & collecting income tax. Initially there was no obligation on the assessee to furnish return of income nor penalty was levied for not doing so. Joint stock companies were compelled to send their returns of profit but the Act did not lay down any rules as to how the profits were to be calculated. The assessee was assessed provisionally for the income of the previous year and the assessment was finally adjusted at the end of the year; with reference to the income of the year: necessary refund or supplementary demands being made. The Chief Revenue Authority was vested with the discretion to refer doubtful
questions of law to the High Court suo-moto or at the instance of the assessee. Various recommendations of different committees streamlined the procedure, which were by and large accepted.

Income Tax law, procedure and organisation of the Department was reviewed in 1981. A rigid attitude would prevent one time tax evader or an unintending defaulter, from making a true disclosure of his affairs but would also unnecessarily strain investigational resources of the Department in cases of doubtful benefit to revenue. The Taxation Law Amendment Act, 1975 inserted a new chapter XIX A in the Income Tax Act and Chapter V - A in the Wealth Tax Act whereby the Government constituted a Settlement Commission w.e.f. 01.04.1976 as a statutory body for the settlement of pending cases. This institution has helped the Department to get over long and continued litigation in complicated cases. During the period 1976 to 1983, the Settlement Commission has settled 1213 cases and of which only one case was admitted by the Supreme Court.

**HYPOTHESIS - I : -**

**Null Hypothesis** :- Assessment procedure followed by Income Tax Department is not related to tax revenue realised.

\[ H_0 : M_1 \neq M_2 \]
Alternative Hypothesis :- The present method of assessment is responsible for low revenue from tax

\[ H_1 : M_1 = M_2 \]

Recently the government in its bid to access over Rs. 4,000 crore worth of taxes stuck in litigation and has come up against a rusty appellate machinery. Officials say that the outstanding tax arrears of the top 100 defaulters amount to Rs. 4,278 crore. Many top taxpayers go in for lengthy litigation, rather than pay the amount demanded by Income Tax Department. A source in the Income Tax Department claimed that the department had managed to collect Rs. 321.47 crore and the balance is either locked in litigation or is uncollectable due to insolvency of the assessee. To name a few (As on 31st Dec, 2000)

Table - 5.1

<table>
<thead>
<tr>
<th>LIST OF FEW TOP DEFAULTERS OF TAX</th>
</tr>
</thead>
<tbody>
<tr>
<td>NAME OF COMPANY</td>
</tr>
<tr>
<td>-------------------</td>
</tr>
<tr>
<td>Maruti Udyog</td>
</tr>
<tr>
<td>MTNL</td>
</tr>
<tr>
<td>SAIL</td>
</tr>
<tr>
<td>GAIL</td>
</tr>
<tr>
<td>IFCI Ltd.</td>
</tr>
<tr>
<td>NTPC</td>
</tr>
<tr>
<td>Pawan Hans</td>
</tr>
<tr>
<td>Company</td>
</tr>
<tr>
<td>----------------------------------</td>
</tr>
<tr>
<td>Pepsico India</td>
</tr>
<tr>
<td>Unicorp Indus</td>
</tr>
<tr>
<td>Obara'Agro Production</td>
</tr>
<tr>
<td>CRB Corporation</td>
</tr>
<tr>
<td>CRB Capital Markets</td>
</tr>
<tr>
<td>Chinar Cigrattes</td>
</tr>
<tr>
<td>American Express India</td>
</tr>
<tr>
<td>Altos (India) Ltd.</td>
</tr>
<tr>
<td>Concord Int (P) Ltd.</td>
</tr>
</tbody>
</table>

Source: Income Tax Department, New Delhi.

A senior official of the Central Board of Direct Taxes said, “All these cases, in which over Rs. 4,000 crore are locked up, are in the appeals stage. In most cases, the companies believe that the assessment is either erroneous or not based entirely on facts”. Part of the fault according to tax officials, is due to the “inefficiency in the appellate wing of our department where cases are long drawn out and not settled quickly”. While reviewing the outstanding tax demands as on 31-12-2000, Income Tax Department, New Delhi states that the collection of the outstanding demand is not satisfactory and disposal of pending cases is less than 40 every month. (Source: Income Tax Deptt., New Delhi).

So from the amount of unrealized tax revenue involved in litigation and reports from tax officials it is
proved beyond doubt, that the present method of assessment is one of the causes for low revenue from tax. Hence the Null Hypothesis is rejected.

**HYPOTHESIS - II :-**

**Null Hypothesis** - Income Tax officials are not responsible for improper implementation of the Act and large-scale evasion of tax.

\[ H_0 : M_1 = M_2 \]

**Alternative Hypothesis** - Laxity on the part of Income Tax officials leads to large-scale evasion of tax and improper execution of the Act.

Over the last couple of years, the work of the department increased manifold due to large growth in the number of taxpayers. But the number of officers in the department at various levels remained the same. As a result of this, the work with each individual officer increased to unmanageable levels. An officer who was earlier dealing with 5 - 10,000 files is required to deal with as many as 56 - 60,000 files in some cases. In salary income this number went as high as 1,00,000 files.

The following figures will give an idea of the growth of workload over a period beginning from 1974-75 to 1983-84.
### Table 5.2

**WORKLOAD OF TAX OFFICIALS**

<table>
<thead>
<tr>
<th>YEAR</th>
<th>FINANCIAL WORK LOAD</th>
<th>INCOME TAX WORK LOAD</th>
<th>WEALTH TAX WORK LOAD</th>
</tr>
</thead>
<tbody>
<tr>
<td>1974 - 75</td>
<td>5,518,327</td>
<td>495,000</td>
<td></td>
</tr>
<tr>
<td>1977 - 78</td>
<td>5,581,355</td>
<td>63,028</td>
<td>633,000</td>
</tr>
<tr>
<td>1980 - 81</td>
<td>6,591,180</td>
<td>1,009,825</td>
<td>850,000</td>
</tr>
<tr>
<td>1983 - 84</td>
<td>6,892,824</td>
<td>301,644</td>
<td>956,000</td>
</tr>
<tr>
<td>1986 - 87</td>
<td>7,145,326</td>
<td>252,502</td>
<td>1,071,000</td>
</tr>
<tr>
<td>1989 - 90</td>
<td>7,456,714</td>
<td>311,388</td>
<td>1,189,000</td>
</tr>
<tr>
<td>1992 - 93</td>
<td>7,923,522</td>
<td>466,808</td>
<td>1,262,000</td>
</tr>
<tr>
<td>1995 - 96</td>
<td>8,338,211</td>
<td>414,689</td>
<td>1,356,000</td>
</tr>
</tbody>
</table>

**Source:** Website of Income Tax Dept, New Delhi.

Besides statistics had shown that about 80% of the revenue was being collected under those heads which placed for compliance and responsibility on the taxpayer such as advance tax payment & payment of tax deducted at source. In these areas the responsibility for compliance has been gradually increased and passed on to the taxpayers. Laxity being a non-measurable magnitude, it cannot be expressed quantitatively in regard to tax officials. But if we analyse the cause, tax officials are not solely responsible for tax evasion or improper implementation of the Act. So with increasing quantum of workload assigned to tax officials, low
revenue and improper execution of the Act cannot be attributed as laxity on the part of Income Tax officials. So the Null Hypothesis is rejected.

In order to rectify this situation, restructuring exercise was undertaken which was the first of its kind in the history of the Income Tax Department, with a view to rationalize the span of control, for better supervision and to improve taxpayer services.

For this purpose, work norms were redesigned and computerization was introduced on a large scale. As a result of restructuring, now each Commissioner has, on average 1,00,000 taxpayers in his charge. These taxpayers are divided into three ranges each managed by an Additional Commissioner of Income Tax / Jt. Commissioner of Income Tax, who in turn is assisted by Assistant Commissioner of Income Tax and Income Tax officers. This will ensure equitable distribution of work, increase productivity and provide better taxpayer services.

Throughout the country, the exercise of restructuring has been undertaken in a very scientific and systematic manner. During this exercise Income Tax Department tried to ensure that movement of files is kept at the minimum level. An attempt was made to post Additional Commissioner of Income Tax / Jt. Commissioner of Income Tax at new stations where more
than 30,000 tax payers is filing return. All the assessment units as per new jurisdiction are fully functional.

**VOLUNTARY COMPLIANCE OF TAX LAWS :** The period under review saw growing reliance upon voluntary compliance of the tax laws by taxpayers. It is a well recognised fact that enforcement of a law becomes easy when there is voluntary compliance with the laws by the public. In the earlier stages of Income Tax Law and Administration, there was very little that the taxpayer was expected to do voluntarily. Over the years, the obligation, which the taxpayer has to fulfill voluntarily, have grown considerably and for this purpose, several amendments to the law have been made, casting various statutory obligations on the assessee.

The start in the direction was made, when years ago, the responsibility of filing the 'Return' of Income was cast on the assessee. This shift in policy appears paradoxical in view of the fact that Direct Tax Laws are not easy to comprehend and the public is not keen to pay taxes. Yet of the various considerations, which might have been the cause of legislation leaning on this side, the main cause appears to be the growing volume of work.

The present can be described as a period, which has witnessed grim battle between the tax administration and tax evaders. During this period long-term measures have
been adopted for the purpose of handling menace of black money. While the front ranks were busy taking measures to unearth black money, the vast machinery of the department has undergone drastic changes and a number of new Directorates and Commissioners were created. These were to become in coming years, specified agencies to intensify investigation & surveys to expedite recovery of old taxes and come up as centres for creating better climate inside the Department and outside and to facilitate smooth working. As a result of certain political changes, unusual energy was generated in the country. The activity in all fields of functioning became manifold; the most prominent were the two areas – (I) Search & Seizure. (II) Contact with public through mass media of Radio and T. V.

As a result of this activity, fear had been struck in the hearts of tax evaders that the arms of the Department are long and its officers neither lacked the will nor the expertise to book the dishonest taxpayers. The tremendous improvement in revenue collected in fourth Voluntary Disclosure Scheme, acknowledged that one of the factors was the relentless drive against tax evaders and economic offenders. This scheme, while it brought large revenues to the exchequer, gave an unprecedented glory to the personnel of the Income Tax Department.
**HYPOTHESIS - 3:**

**Null Hypothesis:** The implementation of our Income Tax Act has no relation with large-scale evasion of tax.

\[ H_0 : M_1 \models M_2 \]

**Alternative Hypothesis:** The existing tax structure is responsible for complicacies involved in tax estimation and large-scale tax evasion.

\[ H_0 : M_1 = M_2 \]

The Income Tax authorities have quasi-judicial powers in levy, assessment and collection of tax. Assessment includes imposition of penalty and is said to be completed when assessment order is made and tax payable by the assessee is determined. Under Indian Income Tax Act, 1961, protective assessment is permissible but protective recovery of tax cannot be allowed which was decided in the case of Jagannath Hanuman box vs ITO (1957) 31 ITR 603 (Cal).

Hikes in rates of various taxes in the category of Direct Taxes which were made because of the needs of financing a war, and the consequent higher profits earned by the business sector, increased the temptation to evade tax. The tendency to evade tax by maintaining double sets of accounts, false purchase vouchers, suppressed sales, omission of sources of income such as branch business, house property, foreign income,
maintenance of accounts in fictitious names, debit of bogus expenses in regard to interest and salaries continues unabated. Accounts originate within the organisation and this involves the tacit assumption that an assessee does not take necessary steps for filing a correct return and the burden of ascertaining the profits is thrown upon the Income Tax Officers who performs what is strictly the statutory duty of an assessee.

There is no instrument in the hands of Income Tax Department, which can test the genuineness of transactions or misrepresented facts.

Any person committing an offence is liable to be prosecuted. But our Act imparts flexibility to the extent that no person shall be punished for any failure if he proves that there is reasonable cause for such failure. The Income Tax Act of 1961 contains various provisions empowering an Income Tax Authority to levy penalty in case of certain defaults. But no penalty under the Income Tax Act is imposable unless the person concerned has been given an opportunity of being heard. The quantum of penalty leviable depends upon the nature of defaults.

It is not the Act but flexibility in giving effect to it, corrupt business practices and degradation in moral standards is responsible for large-scale evasion of tax. Hence the Null Hypothesis is rejected.
**Appraisal of Income Tax Department:**

Appraisal of the Income Tax Department is made on the basis of the following:

(I) Tax collected vs. Targeted tax revenue.

(II) Detection of undisclosed income.

(III) Prompt and correct assessment of tax.

(IV) Quick realization of arrear tax.

The action strategy adopted by Income Tax Department according to the researcher is backed by the below mentioned guidelines

(I) Transparency in dealings.

(II) Genuineness of transaction.

(III) Maintenance of values.

(IV) Environmental sensitivity.

The rights of person who are being searched for detecting undisclosed income might take form of duties to be discharged by tax officials in the long run. The Commissioner is also given power of suo-moto revision of assessment both in favour of revenue and assessee.

Currently it is a period of stress and strain, improvisation, innovation and experimentation. The department has been facing with three major problems

(I) Frequent changes in law.

(II) Ever increasing number of assesses.

(III) A formidable fight against tax evasion.
The laws of a country and its institutions are the product of the socio-economic objectives of the government of the country. During the period under consideration, the Direct Tax laws came to be increasingly used for conflicting purposes. On one hand, there is traditional demand that Direct Tax Laws be used as instrument for raising revenue for the needs of the state; on the other hand, the legislature started using them for channelising the investment in certain predetermined areas. The period under consideration also witnessed remarkable increase in the number of taxpayers and a growing trend of tax evasion.

Numerous details regarding assessment and interpretation of the provisions can be settled and made uniform by issue of rules and instructions.

Several experiments to handle the available work were tried, the most notable being functional scheme, action plan and Summary Assessment Scheme. This method of work was brought from USA but it failed to take into account the prevalent circumstances and the ethos of our people.

The growing pendency and the lack of manpower pointed to the need for selectivity, i.e. segregation of assessment work into two categories
(I) Cases for detailed Investigation.
(II) Cases that should be disposed off without investigation.

Till 1968, the department continued to follow antiquated assessment procedures. Whether it was a big revenue yielding case or a small one, the drill followed for assessment work was the same. The Administrative Reforms Commission had also recommended the desirability of speeding up assessment work in 1968. This need brought into existence the procedure, which is now referred to as Summary Assessment Scheme. The idea of introducing this scheme was that a certain amount of assessment work should be disposed off without any scrutiny, thus leaving the officers free to devote time for investigation. It not only took the sting out of assessment in a majority cases, but also tended to create a climate of trust.

For the first time, an effort was made by the Department to give a feeling to the assessee that if the return was complete in all respects, the taxpayer filing such a return would not be called to Income Tax office and he could thus avoid the attendant irritations.

COST BENEFIT ANALYSIS -> IN RESPECT OF LEVY, ASSESSMENT AND COLLECTION of Tax :-

The Direct Tax Laws are increasingly used for dual purpose. On one hand as a tool of economic policies of
the government and on the other hand as a source of revenue to meet the recurring government expenditure. With the passage of time the Income Tax Department has witnessed a remarkable increase in the number of taxpayers and a growing trend of tax evasion. As a consequence of tax evasion it has become imperative for the department to grow in challenges.

It is evident that there is a simple way of rating taxes according to excess burden. Taxes should be so designed to achieve their assigned objectives but should not interfere with productive investment. Issue of excess tax burden is associated with the problem of conflict between equity and efficiency consideration. Tax burden varies with the elasticity of the tax structure.

Revenue will comprise of tax collected from various sources of income under different heads within the ambit of Direct Tax. Amount spent will be of two types.

- Expenditure incurred in connection with recruitment, selection and training of tax official.
- Amount expended in levy, assessment and collection of tax including assessment procedure, search and seizure, investigation and survey.
Graphical presentation:

Revenue Collected (Loss to Income Tax Department) →

Revenue collected from direct taxes is taken on X-axis and variation of tax rates on Y-axis.

*Loss to Income tax department* -

IEK = \(\frac{1}{2}\) IKEL

= \(\frac{1}{2}\) KE.KI

*Revenue collected* -

CGIK = KC x KI

*Loss of revenue to the Tax Department* -

Revenue collected = \(\frac{1}{2}\) KE x KI / KC x KI

= KE/2KC

*Elasticity of existing structure*

= \(\frac{KE/KC}{KI/IJ}\)

= KI/IJ=KE/KC or KE/2KC

= \(\frac{1}{2}\) Elasticity of existing structure x KI / IJ
(Loss of tax revenue to the department/Revenue collected) = \( \frac{1}{2} \) Elasticity x (Revenue collected / Amount spent)

or Loss of Tax revenue to the department = \( \frac{1}{2} \) Elasticity x (Revenue collected / Amount spent)

Thus greater the elasticity of the existing structure, larger will be the loss of tax revenue to the department or imposition of excess tax burden.

In order to reduce the excess burden, tax should be imposed on the sources of income, which is highly elastic to the changes in tax rate and the burden falls heavily on the high-income group.

Avoidance of excess tax burden must be subordinated to a broader concept of efficiency under which conflicting objectives are reconciled.