INTRODUCTION

AND

RESEARCH DESIGN
CHAPTER 1

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Introduction

The main instrument for transferring resources from private to public is the tax system. In a tax system, it is money rather than goods that is commandeered by the government. Taxes are not voluntary contribution to the public sector; they are compulsory. The government has great flexibility in acquiring the resources. All the taxes are not placed directly on those who must bear the burden. Under the Income Tax, the person who actually pays the tax is the one intended to be burdened. This is called direct tax.¹

Income Tax occupies the pride of place among the Direct Taxes currently imposed in India. The tax was regarded merely as a temporary measure in order to meet the financial difficulties caused by our first war of independence.²

Income Tax plays a very important role in the national economy. It is one of the important sources of revenue of the government. In addition, it is also looked upon as a tool for achieving the social and economic objectives as laid down in our constitution. Income tax has been recognized as a good financial lever to narrow down the disparities in income. Thus, besides being a source of revenue, Income Tax has become an effective instrument to ensure balanced socio-economic growth.³

Historical Perspective

It is a matter of general belief that taxes on income and wealth are of recent origin but there is enough evidence to show that, taxes on income in some form or the other were levied even in primitive and ancient communities. The origin of the word "Tax" is from "Taxation" which means an estimate. These were levied either on the sale and purchase of merchandise or livestock and were collected in a haphazard manner from time to time. Nearly 2000 years ago, there went out a decree from Ceaser Augustus that whole world should be taxed. In Greece, Germany and Roman empires, taxes were also levied sometimes on the basis of turnover and sometimes on occupations.

In India, the system of direct taxation, as it is known today has been in force in one form or another even from ancient times. There are references both in Manu Smriti and Arthasastra regarding tax measures. Manu, the ancient sage and law-giver stated that the king could levy taxes, according to Sastras. The wise sage advised that taxes should be related to the income and expenditure of the subject. The learned author K. B. Sarkar commends the system of taxation in ancient India in his book "Public Finance in Ancient India", (1978 Edition) as follows:-

"Most of the taxes of Ancient India were highly productive. The mixture of Direct Taxes with Indirect Taxes secured elasticity in the tax system, although more emphasis was laid on direct tax. The tax-structure was a broad based one and covered most people within its fold. The taxes were varied and the large variety of taxes reflected the life of a large and composite population".4

Income Tax was introduced in India in 1860 but was discontinued after a few years in 1873. It was reintroduced in 1886 and since then it has stayed in Indian Income Tax structure. Though it was introduced to meet only the temporary need of the government, it becomes a permanent feature of our system due to its revenue potential.

As a result of the recommendation of all India Income tax committee under the 1922 Act. A district nomenclature came to be fashioned for the Income Tax authorities different from that attaching till them to the hierarchy of land revenue official employed on the Income-tax work. However even after the creation of an Income Tax Department, the machinery for the collection of land revenue in various states was for long time utilized for the recovery of Income Tax dues with this difference that in the process the officers could also exercise the powers of a civil court for the execution of decree.

The rapid changes in administration of Direct Taxes, during the last decades, reflect the history of socio-economic thinking in India. From 1922 to present day changes in the direct tax laws have been so rapid that except in the bare outlines, the traces of the I.T. Act, 1922 can hardly be seen in the 1961 Act as it stands amended to date. In these circumstances, that the set up of the department should not only expand but undergo structural changes as well.

**Changes in Administrative Set up Since the Inception of the Department:**

The organizational history of the Income Tax department starts in the year 1922. The Income Tax Act, 1922, gave, for the first time, a specific nomenclature to various Income Tax authorities. The foundation of a proper system of administration was thus laid. In 1924, central board of revenue Act constituted the board as a statutory with functional responsibilities for the administration of Income Tax Act. Commissioners of Income Tax were appointed separately for each province and Tax Assistant Commissioners and Income Tax officers were provided under their control. The amendments to the Income Tax Act, in 1939, made two vital structural changes one is, the appellate functions were separated from administrative functions; a class of officers, known as Appellate Assistant Commissioners, thus came into existence, and the second is a central charge was created in Bombay in 1940, with a view to exercising effecting control over the progress and inception of the work of the Income Tax department throughout India, the very first attached office of the board, called Directorate of Inspection
(Income Tax) was created. As a result of separation of executive and judicial functions, in 1941, the Appellate Tribunal came into existence. In the same year, a central charge was created in Calcutta also^5.

The Second World War brought unusual profits to businessmen. During 1940 to 1947, excess profits tax and business profits tax were introduced and their administration handed over to the department (these were later repealed in 1946 and 1949 respectively). In 1951, the first voluntary disclosure scheme was brought in. It was during this period, in 1946, that a few group 'A' officers were directly recruited. Later on in 1953, the group 'A' officers were directly recruited. Later on in 1953, the group 'A' service was formally constituted as the 'Indian Revenue Service'.

This era was characterized by considerable emphasis on development of investigation techniques. In 1947, taxation on income (investigation) commission was set up which was declared ultra virus by the Supreme Court in 1956 but the necessity of deep investigation had by then been realized. In 1952, the Directorate of Inspection was set up. It was in this year that a new cadre known as Inspectors of Income Tax was created. The increase in 'large income' cases necessitated checking of the work done by department officers. Thus in 1954, the internal audit scheme was introduced in the Income Tax Department.

As indicated earlier, 1946, for the first time a few group 'A' officers were recruited in the department. Training them was important. The new recruits were sent to Bombay and Calcutta where they were trained, though not in an organized manner. In 1957, I.R.S. (Direct Taxes) Staff College started functioning in Napery. Today this attached office of the board functions under a Director-General. It is called the National Academy of Direct Taxes. By 1963, the Income Tax Department, burdened with the administration of several other Acts like W.T., G.T., E.D., etc., had expanded to such an extent that it was considered

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necessary to put it under a separate board. Consequently, the Central Board of Revenue Act, 1963 was passed. The Central Board of Direct Taxes was constituted, under this Act.

The developing nature of the economy of the country brought with it both steep rates of taxes and black incomes. In 1965, the voluntary disclosure scheme introduced. Finally, the need for a permanent settlement mechanism resulted in the creation of the Settlement commission.

A very important administrative change occurred during this period. The recovery of arrears of tax which till 1970 was the function of State authorities was passed on to the departmental officers. A whole new wing of officers Tax Recovery Officers was created and a new cadre of posts of Tax Recovery commissioners was introduced i.e. 1-1-1972.

In order to improve the quality of work, in 1977, a new cadre known as IAC (Assessment) and in 1978 another cadre known as CIT (Appeals) was created. The Commissioners’ cadre was further reorganized and five posts of chief commissioners (Administration) were created in 1981.

Computerization in the department started with the setting up of the Directorate of Income Tax (system) in 1981. Initially computerization of processing of challans was taken up. For this three computer centers were set up in 1984-85 in metropolitan cities using SN-73 systems. This was later extended to 33 major cities by 1989. The computerized Activities were subsequently extended to allotment of PAN under the old series, allotment of TAN, and pay roll accounting. These computer centers used batch process with dumb terminals for data entry.

In 1993 a working group was set up by the government to recommend computerization of the department. Based on the report of the working group a comprehensive computerization plan was approved by the government in October, 1993. In pursuance of this, regional computer centers were set up in Delhi, Mumbai, and Chennai in 1994-95 with RS6000/59H Servers. Personal
Computers were first provided to officers in these cities in phases. A national computer center was set up in Delhi in 1996-97. Integrated application software were developed and deployed during 1997-99. Thereafter, RS6000 type mid range servers were provided in the other 33 computer centers in various major cities in 1996-97. These were connected to the National Computer Center through leased lines. Personal computers were provided to officers of different level up to Income Tax officers in stage between 1997-1999. In phase two offices in 57 cities were brought on the network and linked to RCCs and NCC.

**Restructuring of the Income Tax Department**

The restructuring of the Income Tax Department was approved by the cabinet in its meeting held on 31-8-2000 to achieve the following objectives:-

Increase in effectiveness and productivity; increase in revenue collection, improvement in services to tax payers, reduction in expenditure by downsizing the workforce, improved career prospects at all levels, induction of information technology; and standardization of work norms.

Currently Income Tax is regulated under Income Tax Act 1961 which has undergone more than 3000 amendments. These amendments have covered exemptions, rebates, concessions, deductions, calculation of taxable income, rate schedule, surcharge, and so on.

A comprehensive restructuring of Direct Tax system was adopted in early 1989 with the objectives of further simplification of these taxes. It claimed to make it easier and simpler to pay the taxes for the honest taxpayers, while punishing the tax evaders easily.6

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Understanding of Income Tax law requires the study of the following:

1. Income-tax Act. 1961 (amended up to date)
2. Income-tax Rules. 1962 (amended up to date)
3. Circulars, clarification issued from time to time by the CBDT.
4. Judicial decisions

**Income Tax ACT, 1961**

The provisions of Income Tax are contained in the Income Tax Act 1961 which extends to the whole of India and became effective from first day of April 1962 (section 1).

The Income Tax Act contains provisions for determination of tax liability, procedure for assessment, appeals, penalties and prosecutions. It also lays down the powers and duties of various Income Tax Authorities.

Since the Income Tax Act, 1961 became a revenue law. There are bound to be amendments from time to time in this law. Therefore the Income Tax Act has undergone innumerable changes from the time it was originally enacted. These amendments are generally brought annually, along with the union budget. Beside these amendments, whenever it is found necessary, the government introduces amendments in the form of various amendments acts and ordinances.

**Income Tax Rules 1962**

Every Act normally gives powers to an authority responsible for implementation of the Act, to make rules for carrying out the purpose of the Act. Section 295 of Income Tax has given powers to the central board of Direct Taxes to make such rules. These rules are known as Income Tax Rules 1962. These rules are also amended from time to time by CBDT. Rules framed by CBDT are to be placed before each house of parliament. After such rules are made or amended these are incorporated in the Income Tax Rules 1962.
Circulars and Clarifications by CBDT

The CBDT issues certain circulars and clarifications from time to time which have to be followed and applied by the Income Tax Authorities. However, these circulars are not binding on assessee or the ITAT or courts. But whenever there is any instruction, which is in favor of assessee, the Income Tax Authorities would not be permitted to go back on these circulars. Therefore, such circulars and clarifications are binding upon the Income Tax Authorities but the same are not binding go on all assessees, although assessees can claim benefit under such circulars.

Judicial Decisions

Any decision given by the Supreme Court becomes a law, which will be binding on all the Courts, Income Tax Tribunals, and Income Tax Authorities as well as on all the assessees. On the other hand, decisions given by the High Court, Income Tax Tribunals etc. are binding on all the assessees as well as Income Tax Authorities, which fall under their jurisdiction unless it is over-ruled by the higher authorities. Therefore, the study of such case law is also important to understand the Income Tax Laws.7

Objectives of Tax

Ministry of Finance is responsible for the administration of the finances of the Central Government. It is concerned with;

- All economic and financial matters affecting the country as a whole.
- Resources regulation of expenditure of the Central Government and the transfer of resources to the States.

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7 Ahuja, Girish, and Gupta, Ravi, Professional Approach to Direct Taxes, New Delhi, Bharat Law House Pvt. Ltd. 2000, pp1-5.
The Ministry of Finance divided the taxes into two parts: one is Direct Taxes and the other one is Indirect Tax. The Direct Taxes are controlled by the Central Board of Direct Taxes.

**Income Tax Authorities Appointment & Control (section 116 to 119)**

These sections relate to the Income Tax Authorities, who exercise the powers under the Act; these are both quasi-judicial and executive. Section 252 deals separately with the appellate tribunal which is not an Income Tax Administrative Authority.8

The Income Tax Laws (amendment) Act, 1987 has made a number of changes in the provisions relating to appointment, control, and jurisdiction of Income Tax Authorities.

Section 116 providing the classes of Income Tax Authorities has been replaced by a new section which adds some new authorities to the existing ones and redesigned some others.

Section 117 dealing with the appointment of Income Tax Authorities has also been substituted by a new section.

The new section 120 substituting the old ones combines the provisions as regard jurisdictions of various Income Tax authorities spread over a number of sections. Consequently sections 121, 121A, 123, 125, 125A, 126, 128, 130, and 130A have been deleted.

The following Income Tax Authorities have been constituted under the act to discharge executive and administrative functions:

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**Appointment and Control**

The hierarchy of Income Tax Authorities administering the act till 31.3.1988, would compare as below with those in authorities w.e.f. 1.4.1988.\(^9\)

<table>
<thead>
<tr>
<th>Stages in the Ranking</th>
<th>Designation (Till 31.03.88)</th>
<th>Stages in the Ranking</th>
<th>Designation (01.04.88 onwards)</th>
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<tbody>
<tr>
<td>a)</td>
<td>The Central Board of Direct Taxes</td>
<td>a)</td>
<td>The Central Board of Direct Taxes</td>
</tr>
<tr>
<td>b)</td>
<td>Directors of Inspection</td>
<td>b)</td>
<td>Director General of Income Tax or Chief Commissioner of Income Tax</td>
</tr>
<tr>
<td>c)</td>
<td>Commissioner of Income Tax or Commissioner of Income Tax (Appeals) and Additional Commissioner of Income Tax.</td>
<td>c)</td>
<td>Directors of Income Tax Commissioner of Tax or Commissioner of Income Tax (Appeals).</td>
</tr>
<tr>
<td>d)</td>
<td>Assistant Commissioner of Income Tax i) Inspecting ii) Appellate</td>
<td>d)</td>
<td>Deputy Director of Income Tax or Deputy Commissioner of Income Tax or Deputy Commissioner of Income Tax (Appeals)</td>
</tr>
<tr>
<td>e)</td>
<td>Income Tax Officers</td>
<td>e)</td>
<td>Assistant Directors of Income Tax or Assistant Commissioner of Income Tax.</td>
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<td>f)</td>
<td>Inspectors of Income Tax</td>
<td>f)</td>
<td>Income Tax Officers</td>
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<td>g)</td>
<td>Tax Recovery Officers</td>
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<td>h)</td>
<td>Inspectors of Income Tax.</td>
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**Powers and Functions of Income Tax Authorities**

To administer the Income Tax Act, a hierarchy of authorities exists. They have various powers and functions. Even they have so many powers and functions but there are certain limitations also.

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Powers of Director General of Income Tax

The Director General appointed by the central Government is required to perform such functions as may be assigned by the Central Board of Direct Taxes. The Director enjoys the following powers under different provisions of the Act; giving instructions to the Income Tax Officers [sec.119(2)], enquiry or investigation into concealment [sec.131(1A)], search and seizure [sec.132], to requisite books of account [sec.132A], power of survey [sec.133 A], power to make any enquiry [sec.135].

Powers of Commissioners of Income Tax

The commissioners of Income Tax are appointed by the Central Government. Generally, they are appointed to head the Income Tax administration of a specified area. As head of administration, a commissioner of Income Tax enjoys the following administrative as well as judicial powers and functions under the different provisions of the Act: registration of a charitable trust or institution [sec.12A(a)]; appointment of the Income Tax Officers(class11)and Inspectors of Income Tax [sec.117(2)]; instructions to subordinate authorities [sec.119]; assigning jurisdiction of Inspecting Assistant Commissioners and the Income Tax Officers [sec. 123 and 124]; power of transfer of cases [sec. 127]; assignment of functions to the Inspectors of Income Tax [sec.128]; powers regarding discovery, production of evidence [sec. 131]; search and seizure [sec. 132]; other powers to requisite books of account [sec. 132A]; power to make any enquiry [sec. 135]; disclosure of information respecting assesses [sec. 138]; granting sanction for issue of notice to reopen assessment after the expiry of four years [ sec. 151(2)]; to authorize the Income Tax Officers to recover any arrear of tax due from assesses by distraint and sales of his movable property [sec. 226(5)]; to sanction withholding of refund in certain cases [sec. 243]; set off refunds against tax remaining payable [sec.245]; to direct the Income Tax Officer to prefer appeal to the Appellate Tribunal against the order of the Appellate Assistant Commissioner or commissioner (Appeals) [sec. 253 (2)]; reference to High Court [sec. 256]; revision of orders passed by the Income Tax Officer which is
prejudicial to the revenue [sec. 263]; revision of orders passed by subordinate authorities on his own motion or on the application of the assessee [264]; reduction or waiver of penalty in certain cases [sec.273A]; to award and withdraw recognition to provident funds [Sec.4].

**Powers of Commissioners (Appeals)**

The Commissioners of Income Tax (Appeals) are appointment by the Central Government. It is an appellate authority, vested with the following judicial powers; power regarding discovery or production of evidence, etc. [sec.131], power to call for information [sec.133], power to inspect registers of companies [sec.133], set off of refunds against tax remaining payable [sec.245], disposal of appeal [sec.251], power Imposition of penalty [sec. 271 and 272A].

**Powers of Joint Commissioners**

The joint commissioners are appointed by the Central Government. The main function of this authority is to detect tax evasion and supervise subordinate officers. Under the different provision of the Act the Joint Commissioners enjoys the following powers, namely: to accord approval to adopt fair market value as full consideration for the transfer of a capital asset in the case of understatement of consideration [sec.52]; approval of orders of additional tax on undistributed profits [sec.107]; instructions to the Income Tax Officers [sec.119(3)]; exercise powers of the Income Tax Officers [sec.125A]; powers regarding discovery, production of evidence [sec.131]; search and seizure [sec.132]; power to call information [sec.133]; power to survey [sec.133A]; power to inspect registers of companies [sec.134]; power to make any enquiry [sec.135]; power to hear and examine draft assessment orders and issue direction [sec.144B]; to grant approval to the concerned Income Tax Officer to impose penalty for concealment of income in excess of rupees 25000 [sec.271(1)]; and imposing penalty for failure to answer questions, sign statements, etc., [sec.272A].
Powers of Income Tax Officers

While the Income Tax Officers of class 1 service are appointed by the Central Government, the Income Tax Officers of class 2 service are appointed by the commissioner of Income Tax. Powers, functions and duties of the Income Tax officers are provided in many spheres some of which are discovery and production of evidence [sec.131]; power regarding search and seizure [sec.132]; power of requisition books of account [ sec.132A]; application of retained assets [sec.132B]; power for information [sec.133]; power to survey [sec.133A]; power to inspect registers of companies [134]; allotment of permanent account numbers [139A]; to make assessment [secs.143 and 144]; to impose penalties; to make provisional assessment for refund [sec.141A]; to issue direction for getting accounts audited [sec.142]; to reassess escaped income [147]; rectification of mistakes [sec.154]; to grant approval for deduction of tax at source at lower rates [secs.194,195 and 197]; to demand advance payment of tax [sec. 210]; and to grant refunds [secs.237 and 240], etc.

Powers of Inspectors of Income Tax

The Inspectors of Income Tax are appointed by the Commissioner of Income Tax. Inspectors of Income Tax have to perform such functions as are assigned to them by the Commissioner or any other authority, under which they are appointed to work.10

Statement of the Problem

The present machinery for the implementation of Income Tax is quit rigid, bureaucratic and comparatively inefficient to meet the growing needs of assessees.

Significance of the Study:

Tax system of nation should reflect the social, economic and political aims of the government and towards this end, the administrative machinery should be so

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devised as to implement the tax system equitably and efficiently. A nation’s economic goals expand and policy objectives change as its industries grow, diversify and shift geographically.

The role of tax administration in modern state is a complex one. Taxation is not only an instrument for raising revenue but it has also to serve certain socio economic objectives. In developing countries like India successful administration is hampered by a number of factors. As development precedes the needs for greater resources government has to impose new taxes and rates. This increases the burden on tax payers as well as tax administrators.

It is necessary for successful administration that persons from the legal and accounting profession should discharge their duties honestly and efficiently. However, in developing countries there is dearth of experienced person in these professions.

The tax structure of the country plays a very important role in the working of the economy. It would be helpful to transfer the money from richer classes to the poorer classes by keeping the burden of tax on richer classes. This is possible through a system of law. So it is necessary that these authorities should perform their functions honestly and achieve the target for the economic development of the country. They can play a vital role in collection of taxes. There are so many pressures on Income Tax authorities but still they are helping in collecting the revenues.11

Income Tax is a part of Direct Taxes. It plays an important role in our economy. Its process is highly influenced by political directions and other promotional efforts. Its rules and directions are set up by Finance Ministry. Every year different ways for collecting Income Tax have been announced. The Income Tax Authorities are responsible for all these processes. The total collection of Income Tax revenue has been rising since the year 2000.

Review of Literature

Lewis (1950) tried to describe the situation of taxes at the time of independence. In the beginning of 1950 the tax system of India was totally disturbed. His study is appraising the effects of specific taxes and taxes in general upon the major incentives which are essential to a dynamic economy. His study is mainly concerned with the effects of taxes on four incentives. Then he discusses the nature of taxable capacity and the factors.12

Battachachrya (1963) points out that the natural tendency of the payee to review his liability to taxation to a minimum and the growing desire of the state to have as large a share as possible in the profits made by others have resulted in making the Income Tax Act day to day is very complicated piece of legislation.

In this book more stress has been given to explain the Income Tax Act with the help of suitable illustrations and practical applications of the law than to give a merely theoretical exposition of the various provisions of the Act13

Lokanthan (1963) analyzed that tax avoidance that refers to such activities of individuals, which reduce their tax liabilities within the tax laws, and such reduction in tax liability arises due to presence of loopholes in tax law, ambiguity and inherent limitation of tax laws and tax evasion arises due to illegal acts and reporting of the facts. Through these devices assessees get advantage of these loopholes and reduce tax liability which result in loss of revenue to the exchequer with the passage of time these problems have posed great problems to the tax administration.14

Chaturvedi and Pthisaria's (1973) mention the appointment and control of the Income Tax Authorities. The provisions have been very lucidly discussed and analyzed with appropriate illustrations that one's doubts would be set at rest. In

this book authors have capably dealt with all the possible facets. They mention the discussions of the departmental circulars and instructions at relevant places. They cover 59 sections of the Act up to the stage of the computation of Income Tax. These sections are the foundation and pillars of the Act so to say which deal with basic structure of the Act and the others that follow deal principally with the machinery provisions.\footnote{Chaturvedi, K., and Pithisaria, S. M., \textit{Income Tax Law}, Calcutta, Easter Law House, 1973, p.1403.}

Rai (1979) tries to explain the power, functions and jurisdiction of Income Tax Authorities under various sections i.e. from 116 to 138. He explains the powers and function of Income Tax Authorities from top to bottom with articles. So it is very easy to understand.\footnote{Rai, Kailash, \textit{Law of Income Tax in India}, Allahabad, Central Law Agency, 1979.}

Kumar Deepak (1980) in his study tried to explain the agriculture income, categories of agriculture income and its types. He also explained the methods of computation of agriculture income and calculation of Income Tax\footnote{Kumar, Deepak, \textit{Agriculture Income and its assessment under the Income Tax Act}, An unpublished Ph.D. thesis, Panjab University, 1980.}.

Prasad (1982) has given the stress upon the Finance Act 1982 and the citation up to Income Tax reports. The Rules and notifications issued by various bodies from time to time have also been discussed \footnote{Prasad, Bhagwati, \textit{Law and Practice of Income Tax in India}, Aligarh, Navmann Parkashan, 1982.}

Iyengar (1985) discussed the Income Tax cases, Income Tax reports, recommendations of Central Board of Direct Taxes. He explains the various powers and functions of Income Tax authorities. This book deals with valuation that has been considerably enlarged so as to solve the puzzling problems of diverse nature in respect of appropriate methods of valuing different kinds of taxable assets for the purpose of Wealth Tax and Gift Tax, various illustrations are given, particularly in the light of the Ceiling Law enacted by the Parliament as well as the Rules made by the Central Board of Direct Tax in the purported
exercise of its powers under the Income Tax Laws. Relevant circulars, press notes and notifications relating to the taxes have been separately included.¹⁹

Srivastava (1989) points out that the taxation has to play an increasingly important role in modern state. It has to mobilize resources to finance economic development and maintain the flow of savings and investments from this point of view. Taxes should be administered effectively and efficiently. Tax administration can increase the tax revenue by minimizing arrears of assessment and collection, tendency of appeals, cost of collection and tax avoidance and evasion.²⁰

Paramjeet Singh’s (1989), study is based on critical appraisal of deduction of tax at source under income-tax Act 1961. He gave emphasis on the various consequences of failure to deduct or pay the tax. He critically analyses the certificates shown by the assessee to get deduction of tax at lower rates.²¹

Bhattacharya and Garg (1990) try to explain the various power and function of Income Tax authorities. They review some fundamental changes which have been done by the department. The Income Tax Act (1987) has made number of changes in the provisions relating to appointment, control and jurisdiction of Income Tax Authorities. However, in a developing country like India, successful administration is hampered by a number of factors. As development precedes the burden of tax administration increases due to new taxes, being imposed as existing levies becoming more severe.²²


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Dalai Tajinder’s (1992) work relates to the aspects of depreciation. Under this he mentions the different terms of depreciation and methods of depreciation. He also includes depreciable assets, building, plant, machinery, furniture, business. At the end he mentions that if the assessee follows the depreciation methods as provided in the Income Tax Act, there would be no variation in the taxable and accounting income.24

Suri (1997) highlights that in the beginning of mid-1991, the Government of India had introduced a series of reforms to liberalize and globalize the Indian economy. Tax reforms are part of the package to open up the economy. In this book he provides an exhaustive and critical account of the various aspects of the Income Tax system. It places current developments in the field of taxation in perspective including changes effected by the Finance Act, 1997.25

Gaur and Narang point out that from time to time attempts are made to rationalize and simplify the Income Tax Act,1961. The Finance Minister while presenting the Budget proposals, also make amendments through financial Act every year. The results of frequent amendments are that it is very difficult to know correctly the Income Tax Act and Rules framed hereunder. The successive amendments make the law more and more complicated. In this book they gave emphasis on Income Tax Authorities, about their powers and the procedure to collect Income Tax.26

Shanbhag (1999) explains the numerous problems which are faced by taxpayers and suggest some solutions to solve these problems. Some of these solutions are of great utility, to many others who face the similar situations. It is the duty of every income earner towards the nation to pay tax. He explains all positive points so that by adopting all these things a taxpayer can save the tax. He also suggest various positive points to save a tax through Insurance, L.I.C. Public Provident Fund, National Saving Certificates, house property, company shares, gift tax, Hindu undivided family and wealth tax to save the tax.27

27 Shanbhag, A.N., How to convert a taxpayer into a taxsaver, Popular Prakshan Mumbai, 1999.
Inferences Drawn from the Review of Literature

As for as the knowledge of the researcher, there are very few studies on the Income Tax Administration with special reference to the machinery for implementation of Income Tax Act. But there are certain dissertations on Income Tax Act.1961. From the above studied literature, the following conclusions can be drawn:

- The review of literature reveals that there have been number of books which are on the Income Tax but these books are descriptive in describing the provisions of the Income Tax.

- The various studies on the Income Tax which have been reviewed do not throw light on the effectiveness of the organization of the Income Tax department.

- Again most of the studies do not examine critically the jurisdiction of the Income Tax authorities.

- The survey of the literature shows that the process and procedure for assessment of income have not been studied critically.

- The review of literature further reveals that level of satisfaction of citizens regarding Income Tax authorities has not been properly studied.

Hence it is clear that literature on the Income Tax Act is very limited and it highlights the few aspects. Thus the present study is the modest step to study the machinery for implementation of Income Tax Act with special reference to Income Tax department.

Locale of the Study

Chandigarh is the place where the study has been done. It is located in the Northern Part of the Country. Chandigarh is the Regional Office which deals with the four States. Haryana, Himachal Pradesh, Punjab, Jammu and Kashmir and
Union Territory, Chandigarh. As we know that, at Chandigarh there are mostly salaried persons and business class is very less in number and most of the part of tax collection is collected through Tax Deduction at sources from salaried people.

**Scope of Study**

The study has examined the powers and functions of various authorities under the Income Tax Act. According to the new structure so many changes have been done by the Income Tax Department. This study examine whether these changes have served the purpose for which the Income Tax is functioning.

**Objectives of the Study**

This study is focused on:

1. To study the organizational structure and its effectiveness;
2. To study the staffing pattern in the Income Tax organization;
3. To examine the jurisdiction of the Income Tax authorities;
4. To study the process and procedure for assessment of Income Tax;
5. To study the employee employer relation;
6. To study the level of satisfaction of the citizenry regarding the Income Tax authorities and
7. To examine critically the training arrangements for the Income Tax Authorities.

**Hypotheses**

In this study an attempt has been made to test the following hypothesis:

1. Organizational structure of Income Tax is ineffective in terms of policy implementation.
2. Unsound arrangements for staffing pattern in the department are resulting into unnecessary delay in disposal of cases.

3. There is excessive and abuse of jurisdiction of the powers by the Income Tax authorities.

4. The process and procedure of Income Tax is quite complicated.

5. Unhealthy and unsatisfactory relation between the top and lower staff affects the functioning of the Income Tax machinery.

6. Level of satisfaction in relation to the Income Tax services among the assessee is low.

7. Existing training facilities of the Income Tax authorities are inadequate to render the Income Tax services to the assessee.

**Research Methodology**

The methodology of the study focuses on the nature and sources of data, sampling methods, methods of data collection, analysis, testing of hypothesis. Both primary and secondary sources have been used in this study.

**Primary Source**

Primary data has been collected through Interview method from the sample below given:

**Methods of Sampling**

The sample in this study has been drawn from the population/universe consisting of all the Income Tax assessee and Income Tax authorities on the basis of stratified random sampling method.
The twenty five percent of the total working strength of Income Tax authorities has been taken as sample. The sample size is distributed category-wise as follows:

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<th>S.I</th>
<th>Designation</th>
<th>Officer’s posted</th>
<th>Officer’s selected for sample</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Director General of Income Tax</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>2</td>
<td>Chief Commissioners</td>
<td>6</td>
<td>2</td>
</tr>
<tr>
<td>3</td>
<td>Commissioners</td>
<td>38</td>
<td>10</td>
</tr>
<tr>
<td>4</td>
<td>Joint/Additional Commissioners</td>
<td>75</td>
<td>20</td>
</tr>
<tr>
<td>5</td>
<td>Deputy/Assistant commissioners</td>
<td>135</td>
<td>34</td>
</tr>
<tr>
<td>6</td>
<td>Income Tax Officers</td>
<td>313</td>
<td>78</td>
</tr>
<tr>
<td>7</td>
<td>Income Tax Inspector</td>
<td>645</td>
<td>160</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>900</td>
<td>305</td>
</tr>
</tbody>
</table>

The total number of assessees within the jurisdiction of Chief Commissioner Office north-west region Chandigarh was divided into two groups male and female.

**Male**

The sample of 300 have been taken from the male assessees of below categories.
**Business Class**

1. The sample of 50 has been taken from assessees whose income is below Rs two lac.
2. The sample of 50 has been taken from assessees whose income is between Rs two to Rs five lac.
3. The sample of 50 has been taken from assessees whose income is above Rs five lac.

**Salaried Class:**

1. The sample of 50 has been taken from assessees whose income is below Rs two lac.
2. The sample of 50 has been taken from assessees whose income is between Rs two to Rs five lac.
3. The sample of 50 has been taken from assessees whose income is above Rs five lac.

**Female:**

The sample of 300 have been taken from the female assessees of the below categories.

**Business Class:**

1. The sample of 50 has been taken from assessees whose income is below Rs two lac.
2. The sample of 50 has been taken from assessees whose income is between Rs two to Rs five lac.
3. The sample of 50 has been taken from assessees whose income is above Rs five lac.
**Salaried Class:**

1. The sample of 50 has been taken from assessees whose income is below Rs two lac.
2. The sample of 50 has been taken from assessees whose income is between Rs two to Rs five lac.
3. The sample of 50 has been taken from assessees whose income is above Rs five lac.

**Secondary Source**

The secondary data have been complied from published books, journals. This study is highly based on official records of the government, publications of Central Board of Direct Taxes, the various committee reports and Income Tax reports, among others.

**Interpretation of the Data**

The data collected from the above mentioned sources have been processed and analyzed. Quantitative method of data analysis has been used in this study. Data has also been analyzed on the basis of theoretical framework.

**Chapterisation:**

The study had been divided into the following chapters:

1. Introduction, Scope, Methodology
2. Organization Structure of Income Tax Department
3. Appointment, training and control of Income Tax Authorities
4. Powers and jurisdiction of Income Tax Authorities
5. procedure for assessment
6. Assessees satisfaction
7. Concluding observations
8. Bibliography