Chapter IV

Evaluation of the
Indian Tax Reform Programme
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1. Introduction

A major objective of any tax reform programme must be to facilitate tax compliance by making tax administration simple, responsive to policy-changes, taxpayer-friendly, impartial and fair in the enforcement of tax statutes. Therefore, success of a reform programme depends crucially on the nature and extent of its effects on the above attributes of tax administration. However, there are formidable conceptual and empirical problems in measuring the changes in administration induced by a reforms programme. Nevertheless, this study makes a modest effort to measure such reforms-induced changes and evaluate the effect that the recent Indian tax reform programme has had on tax administration in the country, with particular reference to the taxation of companies.

The three basic tasks of any tax administration are (i) to identify potential taxpayers, (ii) to assess the appropriate tax on them and (iii) to collect that tax. In other words, the ‘three Es’ of administering taxes are to enumerate, estimate and enforce\(^1\). An ineffective tax administration causes upward pressure on rates to make up for lost revenue. Corruption and inefficiency in the tax administration also can cause the citizens to lose confidence in their government\(^2\). As Asher has rightly observed, “a good tax badly administered is unlikely to attain its objectives”\(^3\).


There is immense dissatisfaction in many countries with the operation of the tax administration. In most of the developing countries, income tax laws have become extremely complicated, not only making it easy for tax avoiders and evaders to escape the tax net, but also rendering tax administration ineffective and inefficient. The developing country tax administration that operates efficiently is still the exception. The tax system has become increasingly difficult to administer and considerable evasion coupled with seemingly arbitrary enforcement procedures have reduced the credibility of the tax system in the eyes of many.

In India, the administration of direct taxes is beset with problems caused by complexity of the tax laws, high statutory tax rates, a vast array of deductions and exemptions, difficult administrative procedures and high degree of tax evasion. The large number of deductions and exemptions allowed to companies results in far too low tax realizations from those that pay the tax and in the existence of many “zero-tax” companies that pay no tax at all.

Reform of the direct taxes regime has justifiably received serious attention of successive Indian Governments in the post-independence period, as evidenced by the number of Study Groups, Tax Reforms Committees and High Powered Enquiry Commissions appointed by the Government to study the structure of direct taxes and to recommend suitable policy and administrative measures aimed at improving tax collections and tax compliance.

The setting up of the Chelliah Committee signalled the beginning of a comprehensive tax reforms programme, including mainly the direct taxes. The Committee submitted its Interim Report in December 1991 and its Final Report in

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August 1992. Emphasizing the need for reforming the country’s tax system, the Committee drew attention towards the alarming scale of tax evasion in India and attributed the same to “high tax rates, complex procedure of tax compliance, legal complexity leading to prolonged litigation, and, on top of everything, administrative lapses, inefficiency, corruption and nexus between influential tax evaders and political elements.\(^8\)

The Chelliah Committee Reports were well received by the Government and many of the recommendations made in the Interim Report were implemented in right earnest, right from the very next financial year 1992-93. Although recommendations relating to the corporation income-tax were contained only in the Final Report of the Chelliah Committee, the reform of the direct taxes regime, including that of tax administration, began with the recommendations of the Interim Report itself. The major reform measures adopted by the Government consist essentially of the reduction of tax rates, removal of distinction in the tax treatment of widely-held and closely-held companies, simplification of tax laws, introduction of new tax incentives for attracting domestic as well as foreign investment in infrastructure and other core sectors of the economy and efforts to simplify administrative procedures and to enhance administrative effectiveness through increased efficiency and tax-payer-friendly approaches.

The various enquiry Committees set up in India in the post-independence period (including the Chelliah Committee) have stressed the importance of improving tax administration for translating policy objectives into reality. They have recommended that tax administration must be streamlined. However, few of them have gone into the question of what exactly constitutes administration and what precisely needs to be done so as to streamline tax administration. Further, almost all

\(^7\)Ministry of Finance (1992b): Tax Reforms Committee Final Report - Part I (Chairman: Professor Chelliah, R.J.), Government of India, New Delhi.

the Tax Enquiry Committees dealt with direct taxes on the whole and not exclusively with the corporation income-tax. There are few empirical studies\(^9\) that have gone into the issue of corporation tax structure, administration and reforms with reference to real data obtained from the taxpaying companies.

This study identifies the major ingredients of corporate tax administration in terms of the problem-areas encountered in the interface between the tax payers on the one hand and the tax administration on the other. Most aspects of tax administration, where there is direct or indirect interaction between the tax-paying entities and the tax administration and wherein substantial compliance as well as enforcement problems are likely to be experienced, have been dealt with in detail. The Study has also tried to evaluate, with reference to the corporate tax payers in the country, the impact of the tax reform programme on tax administration, in the first three years of its implementation.

Views of sample companies have been elicited on all major aspects of tax administration and on the on-going tax reforms programme of the Government. Further, an attempt has been made to go into factors that affect day to day administration and into steps that need to be taken to improve the current state of affairs in tax administration, from the tax-payers', as opposed to purely academic or administration's, points of view.

2. Problems faced by companies in income-tax matters

A number of areas wherein companies as well as the tax administration faced problems were listed in the questionnaire and sample companies were asked to categorize the problems into four groups, namely A, B, C, and D, which stood for Very Serious, Serious, Tolerable, and No Problem, respectively, according to the degree of severity of the problems faced. This categorization was got done from the

\(^9\)in the knowledge of the researcher.
responding companies for two periods, namely Before Reforms (Financial Years 1989-90, 1990-91 and 1991-92) and After Reforms (Financial Years 1992-93, 1993-94 and 1994-95), so that a comparison between the responses made by companies in the two periods would indicate the degree of improvement or deterioration of tax administration in each of the problem-areas.

For example, with respect to a given problem, a transition from response A in the pre-reforms period to response B or response C or response D in the post-reforms period would indicate a positive change or improvement in tax administration with respect to that particular problem, whereas a transition from response D in the pre-reforms period to response A or response B or response C in the post-reforms period would indicate a negative change or deterioration in tax administration.

Similarly, if the response with respect to a given problem remained at A or B or C or D in both the pre-reforms as well as the post-reforms periods, it would mean that there has been no change or that the tax administration has not changed, either for the better or for worse, as far as that particular problem is concerned. The same logic has been followed in analysing the sample companies’ responses to each of the problem-areas identified in the questionnaire and the results thereof have been discussed in the following paragraphs.

2.1 Preparation and filing of Income-Tax returns

This is the first among the different administrative problems presented in the questionnaire for categorization by sample companies. A sample format of the income-tax return used by corporate taxpayers in the country is given in Appendix II to this Chapter. The nature of problems faced by companies in this regard could be the complex structure of the return forms prescribed, or difficulties in understanding the information requirements of the income-tax returns, or the
annexures or enclosures required to be filed with the returns, or difficulties in presentation of available information. On the part of the tax administration, the problems faced in this regard might include insufficiency of or ambiguities in the information presented in the income-tax returns, or incomplete filling-up of returns, or non-furnishing of necessary enclosures, or failure of assessee-companies to verify the returns in the manner required, or absence of necessary enclosures or annexures to the returns. Responses of sample companies to this problem are shown in Table-4.1

Table-4.1: Preparation and Filing of Income-Tax Returns

<table>
<thead>
<tr>
<th>Response Combinations</th>
<th>Small Companies (%)</th>
<th>Medium-sized Companies (%)</th>
<th>Large Companies (%)</th>
<th>All Companies (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>No Change:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A - A</td>
<td>-</td>
<td>-</td>
<td>1.8</td>
<td>0.6</td>
</tr>
<tr>
<td>B - B</td>
<td>-</td>
<td>-</td>
<td>1.8</td>
<td>0.6</td>
</tr>
<tr>
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<td>-</td>
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<tr>
<td>A - D</td>
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<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>B - C</td>
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<td>7.1</td>
<td>8.7</td>
<td>6.5</td>
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<td>1.7</td>
<td>0.6</td>
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<tr>
<td>D - B</td>
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<tr>
<td>D - C</td>
<td>1.8</td>
<td>1.8</td>
<td>-</td>
<td>1.2</td>
</tr>
<tr>
<td><strong>Sub-Total:</strong></td>
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<td>3.6</td>
<td>3.5</td>
<td>4.1</td>
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</tr>
</tbody>
</table>

Although a majority of respondents have felt that reforms have brought about no change in this regard, the level indicated by most of them is either “tolerable” or “no problem”. Large companies have experienced the highest proportion of positive change whereas small companies have experienced the highest percentage of negative change. This indicates that the larger companies are better able to overcome
problems associated with the preparation and filing of income-tax returns, while the smaller ones are at a disadvantage in this respect.

2.2 Maintenance of Books of Account

Under the Income-Tax Act, all companies are required to maintain regular books of account. Financial statements such as Manufacturing/Trading Accounts, Profit & Loss Accounts, Balance Sheets, etc., are all prepared from these regular books and are submitted along with the returns of income. During scrutiny assessments, companies might be required by the tax administration to produce the books of account for elaborate verification of various claims made in the financial statements and in the other documents submitted. The tax department is, in normal circumstances, authorized to call for the books of account relating to three financial years preceding the year for which assessment is taken up, in addition to those for the relevant assessment year. In certain other circumstances, such as when previous assessments are reopened or when Search and Seizure assessments are taken up, the companies might be required to produce the books of account of as many as ten preceding financial years relevant to a particular year.

Companies might find it difficult to produce the books of account of all such years as and when they are called for. The Companies Act does not prescribe any specific format for the maintenance of books of account, although uniform methods of reporting financial results have been prescribed. As for tax administration, difficulties may arise if companies inordinately delay the production of books of account, resulting in delays in the completion of assessment proceedings. Sample companies have categorized changes in the level of this problem as shown in Table-4.2.
Table 4.2: Maintenance of Books of Account

<table>
<thead>
<tr>
<th>Response Combinations</th>
<th>Small Companies (%)</th>
<th>Medium-sized Companies (%)</th>
<th>Large Companies (%)</th>
<th>All Companies (%)</th>
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<tbody>
<tr>
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<td>B - B</td>
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<td>-</td>
<td>0.6</td>
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<tr>
<td>C - C</td>
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<td>18.8</td>
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<tr>
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<td>71.5</td>
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<td>A - B</td>
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<td>A - D</td>
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<tr>
<td>B - C</td>
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<td>1.8</td>
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<tr>
<td><strong>Sub-Total:</strong></td>
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<tr>
<td><strong>Negative Change:</strong></td>
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<td>D - C</td>
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<tr>
<td><strong>Sub-Total:</strong></td>
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<tr>
<td><strong>TOTAL:</strong></td>
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</tbody>
</table>

Large companies have reported the highest proportion of positive change after reforms, followed by medium-sized companies. The negative change reported is insignificant. Most companies have indicated a 'no change' position and only a small proportion of medium-sized companies think that the problem has remained 'very serious' even after reforms. Since the magnitude of this problem is not very serious in the opinion of companies, tax administration need not be overly concerned with the same.

2.3 Compulsory Audit of Books of Account

All companies with an annual turnover of Rupees 40 lakh or above are required by the income-tax law to get their books of account audited by qualified auditors and furnish the report of such audits within certain prescribed time-limits. This entails certain costs for the tax-paying companies in the form of engaging the
This entails certain costs for the tax-paying companies in the form of engaging the services of a qualified auditor and in the form of having to preserve all documents pertaining to entries made in their books of account about the financial transactions.

On the part of tax administration, the difficulties frequently encountered in this regard include the non-submission or delayed submission of audit reports or failure by companies to get their books audited. Under certain circumstances, the law also empowers tax authorities to subject the books of account of companies to a special, independent audit by a person appointed by the former and, in such cases, the opportunity cost of auditing is increased, both for the company as well as for the administration, by the consequential delay in finalising assessments.

As Table-4.3 shows, the largest percentage of 'no change' (about 94 per cent) categorization has been done by the small companies. Within this category, only about 2 percent of all companies have reported that the degree of severity of the problem is 'very serious' or 'serious'. The rest of them feel that compulsory audit of the books of account has remained a 'tolerable' problem or a 'no problem' area. The greatest number of companies experiencing a positive change are among the large companies group, followed by the medium-sized companies. 3.5 per cent of small companies have reported a negative change after the reforms. Thus the problems associated with the compulsory auditing of books of account are more pronounced for the small companies and the problems seem to have worsened for them, after the reforms.
Table-4.3 : Compulsory Audit of Books of Account

<table>
<thead>
<tr>
<th>Response Combinations</th>
<th>Small Companies (%)</th>
<th>Medium-sized Companies (%)</th>
<th>Large Companies (%)</th>
<th>All Companies (%)</th>
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<tr>
<td>C - C</td>
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2.4 Preliminary Adjustments under Section 143(1)(a) of the I.T. Act

A scheme of selective scrutiny assessments is adopted by tax administration in India under which, the returns filed by companies are at first subjected to a process known as ‘Preliminary Adjustment’ carried out under the provisions of Section 143(1)(a) of the Income-Tax Act, 1961. Later, some of the cases are selected for scrutiny assessments on the basis of certain criteria laid down by the Central Board of Direct Taxes. The process of preliminary adjustment involves a summary assessment of the returns filed, which includes checking for arithmetical accuracy, deductions and exemptions correctly or incorrectly claimed, non-claiming of exemptions and deductions to which a company might be entitled, and the submission or otherwise of such other documents as the audit report, certificates for tax deduction at source, etc., and prima-facie adjustments, if called for, after such checking.
The procedure adopted for and the process of preliminary adjustments described above has resulted in a lot of problems for both the companies as well as the tax administration, some of which have been resolved through recourse to litigation in courts of law. The main problem that is common to both the taxpayers and the administration is the levy of what is known as the *additional tax* on the difference between the incomes declared by companies in the returns filed by companies and the income arrived at by the assessing officers after processing the returns under the scheme of preliminary adjustments. The rate of this additional tax being substantial at 20 per cent of the difference, a spate of objections has arisen time and again on the nature, quantum and manner of adjustments made, without necessarily giving an opportunity to the companies to explain their stand on particular aspects of the returns of income filed by them.

Whenever any changes are made to the returned income by tax administration under the scheme of *prima facie* adjustments, an intimation is sent to the companies concerned along with an *Adjustment Explanatory Sheet*, which explains the nature, quantum and manner of adjustments made and the reasons therefor. Many a time, it is found by companies that such an explanatory sheet is either found missing because the administration has omitted to send the same, or to be incomprehensible because the sheet is not written clearly enough to make the companies understand the need for making such adjustments.

When companies have filed returns of loss and certain losses are exemptions or deductions claimed are found to be *prima facie* not allowable, the process of preliminary adjustment results in either a reduced figure of loss or in a positive income. In either case, there is a levy of an additional tax. This again has been a very controversial issue as to whether the additional tax is levyable on a negative figure of income. While the companies feel that no tax could be levied on a loss or negative income, tax administration may find that an *overstatement of loss* is, in nature, equivalent to the *understatement of income*, and hence qualifies for levy of the additional tax, if detected during the *prima-facie* adjustments.
Notwithstanding some court rulings, the last word has still not been said on this issue. The preliminary adjustments scheme is a kind of self-assessment scheme for companies which are not selected for scrutiny assessment, since the particulars of income submitted in the returns filed by such companies on the basis of their own computations are accepted by tax administration as final. Terkper observes in this context that “every major tax reform study has emphasized the superiority of the self-assessment system which requires that taxpayers assume more responsibility for raising their own assessment. At the same time, the administration is expected to shift its attention to ensuring compliance with the law, under a system where ‘there will be more audits, more investigations, more checking and verifying of information in returns’. Consequently, there will be a shifting of technically-trained personnel from their role of traditionally assessing taxes to more audit-type work”

\[10\]

Table-4.4: Preliminary Adjustments under Section 143(1)(a) of the Income-Tax Act

<table>
<thead>
<tr>
<th>Response Combinations</th>
<th>Small Companies (%)</th>
<th>Medium-sized Companies (%)</th>
<th>Large Companies (%)</th>
<th>All Companies (%)</th>
</tr>
</thead>
<tbody>
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<tr>
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<td>3.6</td>
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<tr>
<td>D - B</td>
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<td>18</td>
<td>5.3</td>
<td>3.5</td>
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<td>D - C</td>
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<td>-</td>
<td>1.8</td>
<td>2.9</td>
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<td><strong>15.8</strong></td>
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<td><strong>100.0</strong></td>
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</table>

As reflected in Table-4.4, it is the small companies that have shown the highest ‘no change’ categorization (70.2 per cent). Within the ‘no change’ category, the problem has remained ‘Very Serious’ for 5.3 per cent of them. The greatest positive change (23.2 per cent) is reported by large companies, followed by medium-sized companies (21 per cent) and small companies (14 per cent). The highest negative change (15.8 per cent each) has been indicated by the medium-sized and small companies. This negative trend must be a cause for serious concern since, the reform process does not appear to have addressed the problems associated with the preliminary adjustment of returns and the post-reforms period has seen a deterioration of such problems in case of a sizable proportion of companies belonging to each category.

2.5 Receipt of Refund Orders

Companies pay income-tax on their profits by way of advance tax, self-assessment tax and taxes deducted at source (withholding) on interest incomes and various other types of income. When the total tax paid by a company in a year exceeds the total tax liability (including interest and penalty) that is actually determined either after the preliminary adjustment or after the scrutiny assessment, the company has to receive a refund from the tax department of the excess tax paid by it, with interest. The receipt of such refunds by a company is dependent upon the final determination of the correct tax payable by it for a particular assessment year and subject to adjustment of taxes payable by it for any other year(s) from out of the refund arising in that assessment year. When, after allowing for the taxes due and other adjustments as discussed above, a refund of tax paid has clearly become due to a company, the latter must receive the same expeditiously.

In practice, however, the receipt of refund is beset with a number of problems arising from out of various reasons. For example, a company may default
in payment of tax for a past or future assessment year owing to a pending litigation or for any other reasons and the refund arising in a year may be adjusted by the tax department against such pending demands. In some cases, there could be purely administrative delays in issuing a refund order owing to the requirement that approvals of higher officials is to be obtained by assessing officers where refunds exceeding certain monetary limits are to be issued; there could also be delays in simply preparing a Refund Order and dispatching the same to the assessee company owing to heavy workload of officers or shortage of clerical staff or the increased number of levels of officials who are involved in the preparation and checking of refund orders.

Sometime, if difficulties in collecting certain demands arising in the near future are foreseen, the tax administration might withhold refunds due to a company as a means of safeguarding the interests of revenue. In other cases, the Refund Advise that has to be sent to the banks corresponding to each Refund Order issued to the assessee may either be delayed or not sent at all, rendering it impossible for the company to encash the Refund Order. Whatever be the reasons, the receipt of refunds by companies has been acknowledged for long as a major problem-area and as such, the same was put forth to companies for categorization in the context of the tax reforms programme under way. Responses of sample companies to this problem have been presented in Table-4.5.
Table-4.5 : Receipt of Refund Orders

<table>
<thead>
<tr>
<th>Response Combinations</th>
<th>Small Companies (%)</th>
<th>Medium-sized Companies (%)</th>
<th>Large Companies (%)</th>
<th>All Companies (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>No Change:</strong></td>
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<tr>
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<td>14.0</td>
<td>3.6</td>
<td>8.2</td>
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</tr>
<tr>
<td>A - B</td>
<td>-</td>
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<td>A - C</td>
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<td>1.2</td>
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<td>-</td>
<td>-</td>
<td>0.6</td>
</tr>
<tr>
<td>B - C</td>
<td>8.6</td>
<td>19.3</td>
<td>1.8</td>
<td>10.0</td>
</tr>
<tr>
<td>B - D</td>
<td>18</td>
<td>3.5</td>
<td>1.8</td>
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<tr>
<td>C - D</td>
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<td>5.2</td>
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<td>6.4</td>
</tr>
<tr>
<td><strong>Sub-Total:</strong></td>
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<td>33.3</td>
<td>16.1</td>
<td>22.3</td>
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<tr>
<td><strong>Negative Change:</strong></td>
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<tr>
<td>B - A</td>
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<tr>
<td>C - A</td>
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<td>1.8</td>
<td>1.8</td>
<td>1.2</td>
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<tr>
<td>C - B</td>
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<td>3.5</td>
<td>3.5</td>
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</tr>
<tr>
<td>D - A</td>
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<tr>
<td>D - B</td>
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<tr>
<td>D - C</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Sub-Total:</strong></td>
<td>1.8</td>
<td>5.3</td>
<td>5.3</td>
<td>4.1</td>
</tr>
<tr>
<td><strong>TOTAL:</strong></td>
<td>100.0</td>
<td>100.0</td>
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</tr>
</tbody>
</table>

Nearly 33 per cent of all companies report a positive change in this area, with only about 4 per cent of them reporting a negative change after reforms. However, about 21 per cent of all companies still rank this problem as “very serious” or “serious”. Medium-sized companies indicate the highest degree of problem in this area.

2.6 Selection of Cases for Scrutiny Assessments

All returns of income filed by companies are at first subjected to the process of preliminary adjustment as described in the foregoing paragraphs and some of them are selected for scrutiny assessment, which involves deeper examination of their books of account and verification of various claims made in the returns. The
selection of cases is made on the basis of certain criteria laid down from time to time by the Central Board of Direct Taxes. The companies so selected are called upon, through a notice, to produce before the assessing officer the books of account and other documents specified in the notice. The time taken for completing depends in turn upon the time taken by the company to comply with the notices and by the assessing officer to complete the hearings and the examination of documents.

In a study of the methods adopted by tax administration to select cases for scrutiny assessments, Dasgupta has observed that “across different (roughly homogeneous) groups of taxpayers, the proportion of taxpayers scrutinised should vary and that the proportions should increase with the ease of detection of evasion and with the evasion proneness of the group of taxpayers. A random method of selecting cases for scrutiny according to well laid-down and transparent criteria ensures cost-effectiveness while ensuring that no taxpayer is free of risk of scrutiny”\textsuperscript{11}. He has questioned the rationale behind the proposal made in The Long Term Fiscal Policy\textsuperscript{12} to scrutinise all persons declaring incomes above Rs 1 lakh and randomly persons declaring incomes below Rs 1 lakh and has suggested that within each group (or stratum) of tax payers higher proportions of persons declaring low incomes should be audited\textsuperscript{13}.


The administration might find that compliance by companies to scrutiny notices are not satisfactory; or that the criteria laid down for selection of cases for scrutiny do not ensure the selection of revenue-potential cases. In response to the question about the effect of reform measures on this problem, companies have expressed their views, as reflected in Table-4.6.

Table-4.6 : Selection of Cases for Scrutiny Assessment

<table>
<thead>
<tr>
<th>Response Combinations</th>
<th>Small Companies (%)</th>
<th>Medium-sized Companies (%)</th>
<th>Large Companies (%)</th>
<th>All Companies (%)</th>
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<td></td>
<td></td>
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</tr>
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<td></td>
<td>0.6</td>
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<td>1.8</td>
<td>1.2</td>
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<td>5.2</td>
<td>1.8</td>
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<td>11.2</td>
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<td>D - C</td>
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</tbody>
</table>

The Table shows that, in this problem-area, the reforms programme has made no change absolutely in the case of nearly 85 per cent of all companies. The highest proportion of medium-sized companies (about 7 per cent) have felt that the problem has remained 'very serious' or 'serious' before and after reforms. The highest positive change has been experienced after reforms by small companies (about 16 per cent). Small companies have also experienced the highest negative change (about 7 per cent) after the reforms. The negative change is predominantly
from the 'tolerable' to the 'serious' level (about 5 per cent for medium-sized companies and about 2 per cent for small companies).

2.7 Production of Books of Account before I.T. Authorities

Companies may be required to produce the books of account and other documents before the income-tax authorities in support of the claims and statements made in their returns of income. Problems may arise in the production of books of account for the companies owing to either the frequency at which the books and documents are called for or the number of years for which books are required to be furnished. Further, companies may find it difficult to maintain detailed documentation in respect of a number of expenses claimed in their accounts, especially in respect of such expenses as wages, petty expenses, etc. In respect of books of account and other documents seized or impounded by the department, companies may find difficulties in procuring copies thereof or in compiling information therefrom, for production before assessing officers. As for tax administration, non-production of books of account and documents called for, for any reason, might result in delayed or over-pitched assessments and creation of unnecessary suspicion in the minds of assessing officers about the veracity of company's transactions as, for instance, when companies claim that the books of account or other documents have been lost or destroyed.

Analysis of the sample companies' responses to this problem is presented in Table-4.7.
Table-4.7 : Production of Books of Account before I.T. Authorities

<table>
<thead>
<tr>
<th>Response Combinations</th>
<th>Small Companies (%)</th>
<th>Medium-sized Companies (%)</th>
<th>Large Companies (%)</th>
<th>All Companies (%)</th>
</tr>
</thead>
<tbody>
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<td>1.8</td>
<td>1.2</td>
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<td>7.6</td>
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<td>A - D</td>
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<td>D - B</td>
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</tr>
<tr>
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<td>3.5</td>
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<td>100.0</td>
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</tr>
</tbody>
</table>

The highest positive change is reported in this regard by medium-sized companies (about 12 per cent). A negative change has been reported by 3.5 per cent of companies in all the three size-groups. However, most companies indicating a negative change still maintain that the problem is ‘tolerable’ and this shows there is no serious deterioration in the problem after reforms.

2.8 Representation of Companies’ Cases before I.T. Authorities

Companies have to represent their cases before the income-tax authorities at various stages of income-tax proceedings such as assessment or penalty or search and seizure or survey or appellate proceedings. They may make written representations or appoint authorized persons for representing the companies in hearings before the authorities. Understandably enough, the effectiveness of a company’s representation depends crucially upon the quality of written or oral
presentations made and most companies therefore appoint qualified and specialist personnel to represent their cases before the assessing or appellate authorities.

This aspect is recognized in this study as an administrative problem since there is a persistent complaint on the part of companies that they were either not given opportunities of being heard or that their representations were not considered, before the tax administration arrived at decisions affecting them adversely. On the part of administration, it is a common problem that certain companies do not respond to various notices, summons and other communications issued by the former and there is no clear guideline as to what constitutes a reasonable opportunity. Tax authorities may also find that companies' cases are not properly represented before them at hearings either because of the lack of proper documentation of transactions or because of appointment by companies of incompetent persons for the task. All or any of these factors can create a communication gap between the taxpayers and the tax administration and result in unnecessary litigation or stall the tax collection process.

A look at Table-4.8 indicates that nearly 85 per cent of all companies do not perceive any change after reforms in this problem. For about 12 per cent of medium-sized companies, such problems remained at the 'serious' level before and after reforms. As for 'positive change', nearly 16 per cent of small companies have experienced an improvement after reforms. More than 5 per cent of large companies have felt a 'negative change' after reforms. This is one area where small companies seem to have benefited the most and large companies happen to be most aggrieved.
Table-4.8 : Representation of Companies’ Cases before I.T. Authorities

<table>
<thead>
<tr>
<th>Response Combinations</th>
<th>Small Companies (%)</th>
<th>Medium-sized Companies (%)</th>
<th>Large Companies (%)</th>
<th>All Companies (%)</th>
</tr>
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2.9 Remittance of Income Tax through Bank Challans

The procedure for remitting taxes through banks involves the use of different ‘Challans’ (stationery used for filling up details of remittances) which are to be filled-in and presented in the banks along with tax remittances. A sample of the Challan used by corporate taxpayers in the country is given in Appendix III. Many a time, companies experience difficulties because of the non-availability of these Challans or owing to the complexity of the Challans that renders the filling-in of the same a very cumbersome, time-consuming and tedious exercise.

Earlier, the tax administration used to prescribe different challans for different types of payments such as advance tax, self-assessment tax and tax demanded on completion of assessments. Of late, however, there has been some move towards simplification of this aspect in that, a common challan has been introduced for all
types of tax payments, but the problem seems to be far from over. Yet, the challans are very large in size and requires many copies of the same proforma to be filled-in. Also, the procedure for routing the challans from the banks to the assessing officer leaves much to be desired as the challans often reach wrong assessing officers and companies are denied credit for the tax paid by them until the original copies of challans receivable from the banks are traced.

To mitigate the problems arising from the wrong routing of challans, the administration introduced sometime back a scheme of prominently indicating on top of the challans a code number unique to each assessing officer, but the problems do not seem to have been overcome. This inference is supported by the responses indicated by sample companies, shown in Table-4.9.

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<th>Large Companies (%)</th>
<th>All Companies (%)</th>
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<td>B - C</td>
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</table>
Most of the companies have said that reforms have brought about 'no change' in this problem. About 5 per cent of medium-sized companies feel that the problem has remained at the 'very serious' and 'serious' levels after reforms. More than 12 per cent of the medium-sized companies have indicated a 'positive change' and about 7 per cent of large companies have indicated a 'negative change'. Reforms have benefitted the medium-sized companies most, while large companies have experienced the highest negative change.

2.10 Availability of C.B.D.T.'s Circulars and Instructions

Income-tax laws are administered by the tax department under the authority of the Income-Tax Act, but the Act itself does not prescribe the elaborate rules and administrative procedures that are necessary to implement the substantive laws. It empowers the Central Board of Direct Taxes (C.B.D.T.) to prescribe such rules and procedures as are necessary for the administration of the laws. This is done by the Board through issuing Circulars and Instructions which contain the detailed rules and procedures for giving effect to the different provisions enshrined in the tax legislation. Administration requires guidelines to be issued to regulate the operations of the staff and taxpayers. A large number of these guidelines deal with regulating specific business practices and accounting principles for computing tax liability. They aim at making the computation certain, in view of the flexibility allowed by accounting standards in some cases such as calculating depreciation or inventory cost. Likewise, the regulations attempt to forestall the fraud, evasion and tax avoidance promoted by dubious accounting and legal practices. To be effective the staff of the administration need to understand both the general principles of accountancy expressed in professional standards and the exceptions made for taxation purposes. Clearly, the inability of the administration to fulfill these obligations could result in taxpayers moving fast to upset policy changes. As Terkper notes, the policies required to achieve these objectives include “strengthening the
institutional capacity of the administration and formulating model process guidelines which deal with the accounting and audit implications of policy reform and implementation\textsuperscript{14}.

While Circulars are issued for the use of taxpayers, the Instructions are internal in nature and are meant for the regulation of work within the tax department. The courts have held that Circulars issued by the Board cannot take the place of the law itself, but are only adjuncts to and the instruments of implementation of the laws. A Circular which is favourable to the assessees cannot be withdrawn by the Board with retrospective effect. As for Instructions, the assessing officers and other administrative authorities enforcing the tax laws are bound by the same. It is thus very important for the proper administration of tax laws that the Circulars issued by the C.B.D.T. be available to the taxpaying companies and the Instructions be available to the departmental officials. More often than not, this does not appear to be the case and a lot of difficulties are experienced on the sides of both the companies and the administration due to the non availability of Circulars and Instructions and both are forced to rely upon private publishers for making the same available. Of course, the Board does publish from time to time Tax Bulletins containing the compendium of the latest Circulars and Instructions issued from time to time, but these Circulars and Instructions are meant only for internal departmental use and are not readily accessible by departmental officials. This problem has been categorized by the sample companies as in Table-4.10.

Table 4.10: Availability of C.B.D.T.'s Circulars and Instructions

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<th>Medium-sized Companies (%)</th>
<th>Large Companies (%)</th>
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</table>

Nearly 90 per cent of all companies have experienced no change after reforms with regard to this problem, but about 21 per cent of medium-sized companies report that the problem has remained 'very serious' or 'serious' in both the periods. The maximum positive change (about 168 per cent) has been indicated by medium-sized companies. There is no significant 'negative change' reported by any group of companies.

2.11 Giving Effect by Assessing Officers to Appellate Orders

Companies aggrieved by any order passed by assessing officers have a right to appeal against such orders to higher authorities of the tax department or to the tax tribunal or to the courts of law. The appellate authorities, after hearing the points of view of both the taxpayer and the administration and after considering any evidence that may be available on record or produced during such hearings, pass their orders.
either giving reliefs to the assesses or sustaining the orders passed by lower officials 
or setting aside the orders and ordering reassessments.

In cases where the appellate authorities give reliefs to assesses or set aside the original orders, the assessing officers have to give effect to the appellate orders by reducing the tax demands raised in their records and issuing refunds to companies where tax paid by assesses are found to be in excess of the income computed after taking into account the appellate orders. Companies find this issue a problematic one because there could be delays in giving effect to the appellate orders.

**Table-4.11 : Giving Effect by Assessing Officers to Appellate Orders**

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</table>

Table-4.11 reflects the responses of sample companies to this problem. The problem has remained ‘very serious’ for 7 per cent of medium-sized companies and ‘serious’ for 12.5 per cent of large companies. More than 26 per cent of medium-sized companies have indicated a ‘positive change’ with respect to this problem. Just about 2 per cent of all companies have indicated a ‘negative change’ in this regard.
In complying with various rules and procedures prescribed under the income-tax regime, companies have to make use of a number of forms, such as the return of income, the forms for obtaining and issuing certificates for deduction of tax at source, forms for furnishing audit reports, etc. However, the forms may not always be readily available to or understandable by companies.

Table-4.12 : Availability of Prescribed Forms

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As Table-4.12 indicates, the problem remains ‘very serious’ for about 7 per cent and ‘serious’ for about 8 per cent of all companies. Reforms have brought about the highest degree of ‘positive change’ in this regard for nearly 16 per cent of medium-sized companies. There is no appreciable ‘negative change’. In sum, non-availability of prescribed forms still remains a serious problem for companies and reforms have benefitted the large companies to the greatest extent.
2.13 Adjournment/Fixation of Hearings by I.T. Authorities

Income-Tax authorities fix hearings of companies' cases before passing assessment or penalty or appellate orders in order to give them an opportunity to present their cases and explain various aspects of their cases with supporting evidence. The frequency and timing of such hearings depend upon the complexity of a case, the time available with tax authorities and the cooperation of companies in complying with hearing notices and in providing the information called for.

Companies often seek adjournments of hearings fixed on various grounds and it may not always be possible for the tax authorities to grant such adjournments, especially when a company has already availed a number of adjournments in the past and the date of limitation for completing a proceeding is imminent. At times, when companies do not attend hearings or do not supply complete information to assessing or appellate officers or do not cooperate in explaining the documents already in the possession of the tax department, the latter may pass ex-parte orders, on the basis of their best judgment. The companies, on the other hand, might feel that the dates and time for hearing are not fixed in consultation with them or at mutually convenient times. As a result of these factors, this aspect has remained a problem-area. Analysis of the views elicited from sample companies on this problem are presented in Table-4.13.
Table 4.13: Adjournment/Fixation of Hearings by I.T. Authorities

<table>
<thead>
<tr>
<th>Response Combinations</th>
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<th>Medium-sized Companies (%)</th>
<th>Large Companies (%)</th>
<th>All Companies (%)</th>
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</table>

Only about 5 per cent of all companies feel that the problem has remained at the ‘very serious’ or ‘serious’ levels. The highest ‘positive’ as well as ‘negative change’ is indicated by the medium-sized companies (about 12 per cent and 5 per cent respectively).

2.14 Recording of Statements by I.T. Authorities

In the course of income-tax proceedings, tax authorities often have to record statements from companies’ representatives about different aspects of the companies’ affairs and while doing so, companies may complain about official harassment or other difficulties. It is not uncommon for tax authorities to find companies’ representatives giving vague and ambiguous replies to questions asked at the time of recording statements and, making it difficult for the authorities to arrive at any meaningful conclusion about the aspects being investigated.
It bears mention in this context that statements recorded by income-tax authorities in the course of survey or search & seizure or assessment or appellate proceedings are admissible as evidence in the courts of law, but yet, it is quite common for assessees to go back on the statements made by them at later stages on the plea that the statements were recorded under duress or threat and were not made after exercising due diligence and care. There is thus a seemingly interminable spate of complaints about the recording of statements from both the tax payers’ and the administrators’ ends and it was thought worthwhile to elicit the sample companies’ views on the problem of recording of statements by the income-tax authorities. Companies’ views on this aspect are presented in Table-4.14.

Table-4.14 : Recording of Statements by I.T. Authorities

<table>
<thead>
<tr>
<th>Response Combinations</th>
<th>Small Companies (%)</th>
<th>Medium-sized Companies (%)</th>
<th>Large Companies (%)</th>
<th>All Companies (%)</th>
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</tbody>
</table>

The problem is indicated as ‘very serious’ by only about 1 per cent of all companies and as ‘serious’ by just about 4 per cent of all companies. The ‘positive change’ is most appreciable (about 14 per cent) for medium-sized companies.
whereas the ‘negative change’ is most pronounced (about 5 per cent) for large companies.

2.15 Time Given by I.T. Authorities to Furnish Information

Subsequent to or at any time before the furnishing of income-tax returns by a company, it may be asked to furnish some information which may be required by assessing or investigating officers for purposes of income-tax proceedings. Because of the overwhelming load of work and the high disposal and collection targets to be met by the officers, it might not always be possible for the latter to give very long time to companies for furnishing the information and companies may find it difficult to comply with the administration’s requirements in time. It is frequently noticed that companies keep seeking extension of time for one reason or the other and the administration is unable to grant the same, since the information furnished by companies may take further time to be processed or cross-checked from other sources. The same problem is also faced by the administration in collecting information from such other external agencies as banks, financial institutions and other parties with whom the assessee-companies might have had transactions during the relevant assessment year. Companies have given the responses shown in Table-4.15.
### Table-4.15: Time Given to Furnish Information

<table>
<thead>
<tr>
<th>Response Combinations</th>
<th>Small Companies (%)</th>
<th>Medium-sized Companies (%)</th>
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<th>All Companies (%)</th>
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</table>

A great majority of companies find ‘no change’ after reforms in the degree of severity of the problems faced by them with regard to the time given to them for furnishing information to the tax department. However, only 3 per cent of all companies have rated the problem as ‘very serious’ or ‘serious’. The highest ‘positive change’ of about 14 per cent is reported by the medium-sized companies. Only 3 per cent of all companies have reported a ‘negative change’.

### 2.16 Interest/ Penalty/ Prosecution Proceedings

In addition to collecting taxes, tax administration may initiate interest/penalty/prosecution proceedings against companies under different circumstances. For example, interest is chargeable from companies for delaying the filing of income-tax returns, for short or under-payment of advance tax, etc.; penalty proceedings may be initiated for failure to comply with certain notices or summons.
issued by the tax department, for failure to maintain books of account or to get the same audited and furnish the report of audit, for failure to deduct tax at source, for accepting or repaying deposits exceeding Rs. 20,000 in cash, etc. Prosecution proceedings may be launched against companies for willful attempt to conceal incomes and evade tax, for offences connected with search and seizure proceedings, for failure to pay to Government tax deducted at source, failure to furnish returns of income, for giving false statements in verification, etc. Under such circumstances, companies may be required to attend hearings, give statements in writing or furnish evidence about their non-liability to the interest/penalty/proceedings and the companies may feel harassed or over-burdened with tax liability, while the administration may feel that companies are cooperating enough in the proceedings. Companies’ responses are presented in Table-4.16.

**Table-4.16 : Interest/ Penalty/ Prosecution Proceedings**

<table>
<thead>
<tr>
<th>Response Combinations</th>
<th>Small Companies (%)</th>
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</table>
The problems associated with interest/penalty/prosecution proceedings are ‘very serious’ only about 2 per cent of all companies and ‘serious’ for only about 4 per cent of all companies. Medium-sized companies have reported the highest ‘positive change’ (nearly 18 per cent) and small companies have reported the highest ‘negative change’ (14 per cent).

### 2.17 Jurisdiction of I.T. Authorities

Income-Tax authorities are conferred jurisdiction over cases or classes of cases or over persons or classes of persons by an administrative arrangement made by the Central Board of Direct Taxes and such lower authorities as are delegated with such powers by the Board. The jurisdiction at the level of assessing officers is conferred either on territorial or pecuniary basis or on the basis of both the criteria. Income-tax authorities also have powers to change or transfer the jurisdiction of lower-level officials according to administrative or technical convenience.

Companies may experience problems in this regard either due to frequent transfer of jurisdiction from one officer to another or due to the centralization of jurisdiction with any particular officer. The tax officers, on their part, may experience difficulties owing to uneven distribution of jurisdiction resulting in concentration of work-load with some officers and under-utilization of capacity in case of some other officers. Companies responding to the questionnaires sent by this study have categorized the problems as shown in Table 4.17.
Table-4.17: Jurisdiction of I.T. Authorities

<table>
<thead>
<tr>
<th>Response Combinations</th>
<th>Small Companies (%)</th>
<th>Medium-sized Companies (%)</th>
<th>Large Companies (%)</th>
<th>All Companies (%)</th>
</tr>
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</tr>
<tr>
<td>A - D</td>
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<td>B - C</td>
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<td>C - A</td>
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</tr>
<tr>
<td>C - B</td>
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</tbody>
</table>

Nearly 9 per cent of the medium-sized companies have opined that the problem has remained at the 'very serious' and 'serious' levels before and after reforms. They also indicate the highest 'positive change' of about 9 per cent. Small companies have reported the highest 'negative change' of about 5 per cent.

2.18 Amenities/Facilities Available at Income-Tax Offices

In recent years, tax administration has realized the importance of taxpayers in the scheme of things and has been trying to adopt a more taxpayer-friendly approach. Apart from the "File-Smile-and-Go" scheme of accepting most of the returns filed at their face value and subjecting only a very small proportion of such returns to scrutiny assessment and further verifications, the tax department has also launched a drive to modernize its offices throughout the country in a bid to provide better amenities/facilities to both the taxpayers and the tax officials. But yet, the
problems caused by the lack of amenities/facilities at income-tax offices continue to be a factor in administration-taxpayer relationships and much remains to be done in this regard. Posed with the question of amenities/facilities available at income-tax offices, sample companies have advanced the responses shown in Table-4.18.

### Table-4.18: Amenities/Facilities at I.T. Offices

<table>
<thead>
<tr>
<th>Response Combinations</th>
<th>Small Companies (%)</th>
<th>Medium-sized Companies (%)</th>
<th>Large Companies (%)</th>
<th>All Companies (%)</th>
</tr>
</thead>
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<td>1.8</td>
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</tbody>
</table>

More than 21 per cent of all companies have said that the problems have remained at the ‘Very Serious’ and ‘Serious’ levels before and after reforms. Only about 9 per cent of all companies have experienced a ‘positive change’ and about 2 per cent of them have experienced a ‘negative change’ in this regard.

### 2.19 Accessibility of Income-Tax Authorities

Companies may need to meet income-tax authorities at times to sort out some problem or seek clarification about some procedure or fix further hearings or to
register their complaint against any grievance that may have against any lower-level functionary or against any procedure. It is important that the authorities are accessible and their manner of functioning is open and transparent, so as to ensure adherence to the principles of natural justice. To know to what extent accessibility of income-tax authorities has been a problem, companies were asked to indicate the degree of severity of the problem. Their responses are indicated in Table-4.19.

Table-4.19: Accessibility of I.T. Authorities

<table>
<thead>
<tr>
<th>Response Combinations</th>
<th>Small Companies (%)</th>
<th>Medium-sized Companies (%)</th>
<th>Large Companies (%)</th>
<th>All Companies (%)</th>
</tr>
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<td>1.8</td>
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<td>1.2</td>
</tr>
<tr>
<td>C - A</td>
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<tr>
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</table>

The problem has remained at the ‘Serious’ level in the case of nearly 5 per cent of all companies. Nearly 25 per cent of small companies have indicated a ‘positive change’ and about 5 per cent of the medium-sized companies have indicated a ‘negative change’. On the whole, reforms seem to have made no change or improvement in case of most companies, except for a positive trend noticed most in the case of small companies.
2.20 Distance to be Traveled to Meet Income-Tax Authorities

Companies’ representatives may have to travel long distances to attend income-tax proceedings or meet income-tax authorities, in connection with various assessment, penalty, prosecution, survey, search and seizure or appellate proceedings. The factors that influence the distance to be travelled by companies’ representatives may be the location of income-tax office, the officer with whom jurisdiction over companies’ cases vests, or the internal administrative arrangement of a particular income-tax range or circle, whereby jurisdiction over particular cases or classes of cases are assigned to different assessing, appellate or administrative officials. One of the major goals of administrative reforms is to make compliance with tax laws more convenient to taxpayers. Response of sample companies are presented in Table-4.20.

Table-4.20 : Distance to be Traveled to meet I.T. Authorities

<table>
<thead>
<tr>
<th>Response Combinations</th>
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<th>All Companies</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(%)</td>
<td>(%)</td>
<td>(%)</td>
<td>(%)</td>
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<tr>
<td>A - C</td>
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<td>1.8</td>
<td>1.8</td>
</tr>
<tr>
<td><strong>Negative Change:</strong></td>
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<td>B - A</td>
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<tr>
<td>C - A</td>
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<td>100.0</td>
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</table>
About 12 per cent of medium-sized companies have said that the problem has remained ‘very serious’ or ‘serious’ in both the pre- and post-reforms periods. The highest ‘positive change’ is indicated by medium-sized companies (about 4 per cent) and the highest ‘negative change’ is reported by small companies (about 5 per cent).

2.21 Frequency of Visiting Income-Tax Office

For giving opportunity of being heard to companies before passing orders or because of communication gaps or the insufficient information made available in returns and other documents filed or because of the need to verify certain information thoroughly, income-tax authorities may require attendance of companies’ representatives at income-tax offices.

<table>
<thead>
<tr>
<th>Response Combinations</th>
<th>Small Companies (%)</th>
<th>Medium-sized Companies (%)</th>
<th>Large Companies (%)</th>
<th>All Companies (%)</th>
</tr>
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</tr>
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<td>-</td>
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<tr>
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<td><strong>5.3</strong></td>
<td><strong>12.4</strong></td>
<td><strong>5.4</strong></td>
<td><strong>7.7</strong></td>
</tr>
<tr>
<td><strong>Negative Change:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>B - A</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>C - A</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>C - B</td>
<td>1.8</td>
<td>3.5</td>
<td>1.8</td>
<td>2.4</td>
</tr>
<tr>
<td>D - A</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>D - B</td>
<td>1.8</td>
<td>1.8</td>
<td>-</td>
<td>1.2</td>
</tr>
<tr>
<td>D - C</td>
<td>1.8</td>
<td>-</td>
<td>-</td>
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</tr>
<tr>
<td><strong>Sub-Total:</strong></td>
<td><strong>5.4</strong></td>
<td><strong>5.3</strong></td>
<td><strong>1.8</strong></td>
<td><strong>4.2</strong></td>
</tr>
<tr>
<td><strong>TOTAL:</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>
As indicated by companies in Table-4.21, the reforms programme has made no difference in a large number of cases and has brought about a positive change in some cases and a negative change in a small proportion of cases. Nearly 11 per cent of the large companies have indicated that the problem associated with visiting income-tax offices has remained at the ‘serious’ level before and after the reforms programme. About 12 per cent of medium-sized companies have experienced a ‘positive change’ and 5 per cent of small companies have indicated a ‘negative change’ in this regard.

2.22 Survey/Search & Seizure Proceedings

In India, compliance with income-tax laws is a voluntary process on the part of assessees having incomes chargeable to tax and companies are expected to file their returns of income regularly and present accurate particulars of their business affairs to the tax administration. However, in order to curtail tax evasion and ensure greater degree of compliance, tax administration has, at times, to resort to direct methods such as surveys and search and seizure operations, wherein the tax officials visit the business or residential or other premises of the companies and try to bring on record the true facts about the assessees’ affairs.

A survey operation gives income-tax officials limited powers of visiting business establishments during regular business hours, to inspect stocks or materials or books of account or other documents or cash found in the premises, to inventorise the above things and to record statements of persons who are found to be in control of the affairs of the company at the time of survey. During this process, companies may feel disturbed over the intrusion of tax officials into their premises or over the queries made from them or over the prolonged procedures of the survey operations, requiring the presence of responsible persons of companies, or over the impounding of their books of account or other documents.
As opposed to surveys, search and seizure operations give tax officials vast powers to enter the business, residential or any other premises belonging to companies or to their directors or to any other person(s) connected with the affairs of the companies. In the course of search and seizure proceedings, the officials are also authorized to make inventory of cash, bullion, jewellery, other valuables, books of account and other documents that may be found at the premises, to seize any of the above assets or documents, to put seals on any place and to record statements on oath of any persons found in the premises at the time of the operation. Companies may be aggrieved by the violation of their right to privacy, intense interrogation of their personnel and recording of their statements, freezing of their bank accounts, seizure of their assets including cash, bullion, jewellery, etc., or by any other aspect of the search and seizure operation. Responses of sample companies to these problems are summarised in Table-4.22.

**Table-4.22 : Survey/ Search & Seizure Proceedings**

<table>
<thead>
<tr>
<th>Response Combinations</th>
<th>Small Companies (%)</th>
<th>Medium-sized Companies (%)</th>
<th>Large Companies (%)</th>
<th>All Companies (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>No Change:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A - A</td>
<td>1.8</td>
<td>3.5</td>
<td>1.8</td>
<td>2.4</td>
</tr>
<tr>
<td>B - B</td>
<td>5.3</td>
<td>5.3</td>
<td>3.5</td>
<td></td>
</tr>
<tr>
<td>C - C</td>
<td>7.0</td>
<td>19.3</td>
<td>21.4</td>
<td>15.9</td>
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<tr>
<td>D - D</td>
<td>77.0</td>
<td>59.4</td>
<td>69.6</td>
<td>68.7</td>
</tr>
<tr>
<td><strong>Sub-Total:</strong></td>
<td><strong>91.1</strong></td>
<td><strong>87.5</strong></td>
<td><strong>92.8</strong></td>
<td><strong>90.5</strong></td>
</tr>
<tr>
<td><strong>Positive Change:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A - B</td>
<td>3.5</td>
<td>1.8</td>
<td>-</td>
<td>1.8</td>
</tr>
<tr>
<td>A - C</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>A - D</td>
<td>-</td>
<td>1.8</td>
<td>-</td>
<td>0.6</td>
</tr>
<tr>
<td>B - C</td>
<td>-</td>
<td>1.8</td>
<td>-</td>
<td>0.6</td>
</tr>
<tr>
<td>B - D</td>
<td>-</td>
<td>1.8</td>
<td>-</td>
<td>0.6</td>
</tr>
<tr>
<td>C - D</td>
<td>1.8</td>
<td>5.3</td>
<td>3.6</td>
<td>3.5</td>
</tr>
<tr>
<td><strong>Sub-Total:</strong></td>
<td><strong>5.3</strong></td>
<td><strong>12.5</strong></td>
<td><strong>3.6</strong></td>
<td><strong>7.1</strong></td>
</tr>
<tr>
<td><strong>Negative Change:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>B - A</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>C - A</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>C - B</td>
<td>1.8</td>
<td>-</td>
<td>3.6</td>
<td>1.8</td>
</tr>
<tr>
<td>D - A</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>D - B</td>
<td>1.8</td>
<td>-</td>
<td>-</td>
<td>0.6</td>
</tr>
<tr>
<td>D - C</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Sub-Total:</strong></td>
<td>-</td>
<td>-</td>
<td><strong>3.6</strong></td>
<td><strong>2.4</strong></td>
</tr>
<tr>
<td><strong>TOTAL:</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>
For most companies, there seems to be no reform-induced change as regards problems faced by companies in the matter of surveys/searches and seizures. For about 6 per cent of all companies this problem has remained at the 'very serious' or 'serious' levels before and after the reforms programme. More than 7 per cent of all companies have recorded a 'positive change' after reforms and about 2 per cent of all companies have reflected a 'negative change' in this regard.

To mitigate the problems faced by assessees during Search and Seizure proceedings, the Board has brought out a 'Charter of Rights' of the assessees whose premises are being searched. In terms of this Charter, assessees have the right of verifying the identities of the members of the team of officials performing the Search and Seizure operations, of demanding the production of the warrant of authorization for inspection, of securing copies of the "Panchanamas" or inventories of articles found or seized during such operations, etc. However, the Charter of Rights is only a reiteration of provisions already existing in the Income-Tax Act and does not seem to have helped much in educating the public about the nature and purpose of such operations or in tackling the practical problems of assessees and of the administration.

2.23 Cost of Compliance with Income-Tax Laws/Rules

In addition to the tax itself, taxpayers have to bear some indirect costs in complying with his tax obligations and the extent of these costs depends on the efficiency of the tax administration. If the implementation of tax legislation leads to uncertainty, undue demands for information, and arbitrary decisions, this is also a cost for the taxpayer. Thus the cost of complying with income-tax laws/rules is a cost imposed upon taxpayers in addition to the effective tax rates at which they pay tax.

Hann observes that the costs of compliance for the taxpayer are at present too high, and to reduce these costs would be another incentive to business to
comply with the law, in addition to saving administrative time and costs for the tax administration. Thimmaiah, lamenting over the fact that the Chelliah Committee did not pay sufficient attention to the aspect of cost of compliance, observes that over the years, the Indian tax structure has shifted the cost of collection to the taxpayer by increasing the cost of compliance. While holding the expert committees and experts guilty of not noticing this invisible change that has taken place in the law and administration, he points out that when the cost of tax compliance increases it would offset the benefit of tax rate cuts and the net impact of tax rate cuts would be reduced. Bringing down the cost of compliance must be one of the prominent goals of any tax reform programme. Responses of sample companies to this question have been summarised in Table-4.23.

**Table-4.23 : Cost of Complying with I.T. Laws/ Rules**

<table>
<thead>
<tr>
<th>Response Combinations</th>
<th>Small Companies (%)</th>
<th>Medium-sized Companies (%)</th>
<th>Large Companies (%)</th>
<th>All Companies (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>No Change:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A - A</td>
<td>1.8</td>
<td>7.0</td>
<td>-</td>
<td>2.9</td>
</tr>
<tr>
<td>B - B</td>
<td>1.8</td>
<td>8.7</td>
<td>8.9</td>
<td>6.5</td>
</tr>
<tr>
<td>C - C</td>
<td>33.3</td>
<td>50.8</td>
<td>42.8</td>
<td>42.2</td>
</tr>
<tr>
<td>D - D</td>
<td>57.8</td>
<td>22.8</td>
<td>35.7</td>
<td>38.8</td>
</tr>
<tr>
<td><strong>Sub-Total:</strong></td>
<td>94.7</td>
<td>89.3</td>
<td>87.4</td>
<td>90.4</td>
</tr>
<tr>
<td><strong>Positive Change:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A - C</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>A - D</td>
<td>-</td>
<td>1.8</td>
<td>-</td>
<td>0.6</td>
</tr>
<tr>
<td>B - C</td>
<td>-</td>
<td>5.3</td>
<td>-</td>
<td>1.8</td>
</tr>
<tr>
<td>B - D</td>
<td>-</td>
<td>-</td>
<td>1.8</td>
<td>0.6</td>
</tr>
<tr>
<td>C - D</td>
<td>-</td>
<td>1.8</td>
<td>3.6</td>
<td>1.8</td>
</tr>
<tr>
<td><strong>Sub-Total:</strong></td>
<td>-</td>
<td>7.1</td>
<td>5.4</td>
<td>4.2</td>
</tr>
<tr>
<td><strong>Negative Change:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>B - A</td>
<td>1.8</td>
<td>-</td>
<td>1.8</td>
<td>1.2</td>
</tr>
<tr>
<td>C - A</td>
<td>-</td>
<td>1.8</td>
<td>3.6</td>
<td>1.8</td>
</tr>
<tr>
<td>C - B</td>
<td>-</td>
<td>1.8</td>
<td>1.8</td>
<td>1.2</td>
</tr>
<tr>
<td>D - A</td>
<td>3.5</td>
<td>-</td>
<td>-</td>
<td>1.2</td>
</tr>
<tr>
<td>D - B</td>
<td>-</td>
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<td>-</td>
<td>-</td>
</tr>
<tr>
<td>D - C</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Sub-Total:</strong></td>
<td>5.3</td>
<td>3.6</td>
<td>7.2</td>
<td>5.4</td>
</tr>
<tr>
<td><strong>TOTAL:</strong></td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Most companies have reported a ‘no change’ situation. About 9 per cent of all companies have indicated that the problem has remained at the ‘very serious’ and ‘serious’ levels in the pre- and post-reforms periods. As against this trend, the proportion of companies reporting a ‘Positive Change’ is just about 4 per cent. In contrast, about 5 per cent of all companies have indicated a ‘negative change’. From the above data, it appears that the reform programme has not been successful in bringing down the cost of compliance and the assesses worst-affected by this problem are the small companies who have experienced the highest ‘no change’ situation and no ‘positive change’ at all.

2.24 Complexity of Income-Tax Laws/Rules

Another foremost objective of a tax reform programme is the simplification of income-tax laws and rules and the procedures framed thereunder, so as to make tax compliance easier and less burdensome for companies and other assesses. Sample companies’ responses are shown in Table-4.24.

<table>
<thead>
<tr>
<th>Response Combinations</th>
<th>Small Companies (%)</th>
<th>Medium-sized Companies (%)</th>
<th>Large Companies (%)</th>
<th>All Companies (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Change:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A-A</td>
<td>10.5</td>
<td>7.0</td>
<td>5.3</td>
<td>7.6</td>
</tr>
<tr>
<td>B-B</td>
<td>8.7</td>
<td>24.6</td>
<td>28.6</td>
<td>20.6</td>
</tr>
<tr>
<td>C-C</td>
<td>17.5</td>
<td>19.3</td>
<td>39.3</td>
<td>25.3</td>
</tr>
<tr>
<td>D-D</td>
<td>26.5</td>
<td>15.6</td>
<td>9.0</td>
<td>17.0</td>
</tr>
<tr>
<td>Sub-Total:</td>
<td>63.2</td>
<td>66.5</td>
<td>82.2</td>
<td>70.5</td>
</tr>
<tr>
<td>Positive Change:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>A-B</td>
<td>7.0</td>
<td>3.5</td>
<td>-</td>
<td>3.5</td>
</tr>
<tr>
<td>A-C</td>
<td>1.8</td>
<td>-</td>
<td>-</td>
<td>0.6</td>
</tr>
<tr>
<td>A-D</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>B-C</td>
<td>8.7</td>
<td>19.3</td>
<td>12.5</td>
<td>13.5</td>
</tr>
<tr>
<td>B-D</td>
<td>3.5</td>
<td>18</td>
<td>-</td>
<td>1.8</td>
</tr>
<tr>
<td>C-D</td>
<td>8.7</td>
<td>-</td>
<td>5.3</td>
<td>4.7</td>
</tr>
<tr>
<td>Sub-Total:</td>
<td>29.7</td>
<td>24.6</td>
<td>17.8</td>
<td>24.1</td>
</tr>
<tr>
<td>Negative Change:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>B-A</td>
<td>1.8</td>
<td>18</td>
<td>-</td>
<td>1.2</td>
</tr>
<tr>
<td>C-A</td>
<td>5.3</td>
<td>-</td>
<td>-</td>
<td>1.8</td>
</tr>
<tr>
<td>C-B</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>D-A</td>
<td>-</td>
<td>5.3</td>
<td>-</td>
<td>1.8</td>
</tr>
<tr>
<td>D-B</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>D-C</td>
<td>-</td>
<td>18</td>
<td>-</td>
<td>0.6</td>
</tr>
<tr>
<td>Sub-Total:</td>
<td>7.1</td>
<td>8.9</td>
<td>-</td>
<td>5.4</td>
</tr>
<tr>
<td>TOTAL:</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>
As the Table shows, the problem has remained at the ‘very serious’ and ‘serious’ levels for nearly 34 per cent of large companies and for the medium-sized and small companies as well, to a somewhat lesser extent. The highest ‘positive change’ has been reported by about 30 per cent of small companies. About 9 per cent of medium-sized companies and 7 per cent of small companies have reported a ‘negative change’, the most prominent movement being from the ‘no problem’ to the ‘very serious’ level. This analysis indicates that the greatest proportion of companies experiencing no change after reforms in the matter of complexity of income-tax laws/rules are among the large companies, whereas the greatest proportion of companies experiencing a positive change in the aftermath of reforms are among the small companies, who have also reported the highest proportion of negative change.

2.25 Prioritisation of Problem-Areas

In order to prioritise the problems faced by companies, ranks have been assigned to each problem on the basis of the category of change indicated by the small, medium-sized and large companies and all companies taken together. As explained in earlier paragraphs, companies have categorized each problem among 16 different combinations of severity levels such as A to A, A to B, A to C, A to D, B to A, B to B, B to C, B to D, C to A, C to B, C to C, C to D, D to A, D to B, D to C and D to D. In each such combination, the first letter indicates the severity of problems faced before reforms and the second letter indicates the severity of problems faced after reforms.

These combinations are further classified into three broad groups, namely, the No Change group (including combinations A to A, B to B, C to C and D to D), the Positive Change group (consisting of combinations A to B, A to C, A to D, B to C, B to D and C to D) and the Negative Change group (comprising combinations B to A, C to A, C to B, D to A, D to B and D to C).
Since the highest positive change as a result of reforms could be represented by the combination A to D and the greatest adverse or negative change as a result of reforms could be represented by the combination D to A, all other combinations can be placed on a linear value scale with negative values for the negative change groups and the no change group, zero value for combination D to D and positive values for the positive change group and values can be assigned to each combination on the scale on the basis of the level of increase or decrease of severity of a given problem as a result of reform measures. On doing this exercise, the value scale representing various combinations ranges from -9 to +6 as shown in Annexures I to IV to this Chapter.

On the basis of this linear scale, values of each combination indicated by companies against a particular problem area mentioned in the questionnaire have been arrived at by multiplying the scale value of each combination with the number of companies indicating that combination in each category (small, medium-sized, large and all) of companies.

Then, all the positive and negative values have been added up, to arrive at a net score for each problem area, all of which happen to be negative scores, indicating that the tax reforms have not produced a net positive change in respect of any problem. Finally, these scores have been arranged in the descending order to arrive at the prioritisation of problem areas, with the problem area having the highest negative score being placed on top of the list and the one having the lowest negative score being placed at the bottom of the list. It is worth noting that the prioritisation of problem areas worked out on the basis of this method happens to be different for the small, medium-sized and large companies and also for all companies taken together. Tables 4.25 to 4.28 reflect the final prioritisation lists of problem areas for the small, medium-sized, large and all companies respectively.
Table 4.25: Problem Ranking for Small Companies

<table>
<thead>
<tr>
<th>Rank</th>
<th>Nature of problem faced by companies</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Preliminary Adjustments under Section 143(1)(a)</td>
<td>-74</td>
</tr>
<tr>
<td>2</td>
<td>Interest/Penalty/Prosecution Proceedings</td>
<td>-51</td>
</tr>
<tr>
<td>3</td>
<td>Amenities/Facilities available at Income-Tax Offices</td>
<td>-51</td>
</tr>
<tr>
<td>4</td>
<td>Cost of Complying with Income-Tax Laws/Rules</td>
<td>-46</td>
</tr>
<tr>
<td>5</td>
<td>Distance to be Travelled to Meet Income-Tax Authorities</td>
<td>-40</td>
</tr>
<tr>
<td>6</td>
<td>Availability of C.B.D.T. Circulars &amp; Instructions</td>
<td>-32</td>
</tr>
<tr>
<td>7</td>
<td>Recording of Statements by Income-Tax Authorities</td>
<td>-31</td>
</tr>
<tr>
<td>8</td>
<td>Giving Effect by Assessing Officers to Appellate Orders</td>
<td>-29</td>
</tr>
<tr>
<td>9</td>
<td>Jurisdiction of Income-Tax Authorities</td>
<td>-27</td>
</tr>
<tr>
<td>10</td>
<td>Adjournments/Fixation of Hearings by I.T. Authorities</td>
<td>-26</td>
</tr>
<tr>
<td>11</td>
<td>Compulsory Audit of Books of Account</td>
<td>-26</td>
</tr>
<tr>
<td>12</td>
<td>Time Given by I.T. Authorities to Furnish Information</td>
<td>-25</td>
</tr>
<tr>
<td>13</td>
<td>Frequency of Visiting Income-Tax Offices</td>
<td>-25</td>
</tr>
<tr>
<td>14</td>
<td>Selection of Cases for Scrutiny Assessments</td>
<td>-24</td>
</tr>
<tr>
<td>15</td>
<td>Availability of Prescribed Forms</td>
<td>-21</td>
</tr>
<tr>
<td>16</td>
<td>Receipt of Refund Orders</td>
<td>-20</td>
</tr>
<tr>
<td>17</td>
<td>Complexity of Income-Tax Laws/Rules</td>
<td>-18</td>
</tr>
<tr>
<td>18</td>
<td>Survey/Search &amp; Seizure Proceedings</td>
<td>-17</td>
</tr>
<tr>
<td>19</td>
<td>Remittance of Income-Tax through Bank Challans</td>
<td>-14</td>
</tr>
<tr>
<td>20</td>
<td>Production of Books of Account before I.T. Authorities</td>
<td>-12</td>
</tr>
<tr>
<td>21</td>
<td>Preparation and Filing of Income-Tax Returns</td>
<td>-10</td>
</tr>
<tr>
<td>22</td>
<td>Maintenance of Books of Account</td>
<td>-10</td>
</tr>
<tr>
<td>23</td>
<td>Representation of Company's Case Before I.T. Authorities</td>
<td>-6</td>
</tr>
<tr>
<td>24</td>
<td>Accessibility of Income-Tax Authorities</td>
<td>0</td>
</tr>
</tbody>
</table>

The problem-ranking shown above for small companies has been computed in accordance with the linear scale shown in Annexure I. Preliminary adjustments under Section 143(1)(a) of the Income-Tax is ranked by these companies as their foremost problem. Problem-ranking for medium-sized companies is shown in Table 4.26.
### Table-4.26: Problem Ranking for Medium-sized Companies

<table>
<thead>
<tr>
<th>Rank</th>
<th>Nature of problem faced by companies</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Preliminary Adjustments under Section 143(1)(a)</td>
<td>-62</td>
</tr>
<tr>
<td>2</td>
<td>Amenities/Facilities available at Income-Tax Offices</td>
<td>-59</td>
</tr>
<tr>
<td>3</td>
<td>Complexity of Income-Tax Laws/Rules</td>
<td>-56</td>
</tr>
<tr>
<td>4</td>
<td>Cost of Complying with Income-Tax Laws/Rules</td>
<td>-55</td>
</tr>
<tr>
<td>5</td>
<td>Frequency of Visiting Income Tax Office</td>
<td>-41</td>
</tr>
<tr>
<td>6</td>
<td>Interest/Penalty/Prosecution Proceedings</td>
<td>-40</td>
</tr>
<tr>
<td>7</td>
<td>Jurisdiction of Income-Tax Authorities</td>
<td>-37</td>
</tr>
<tr>
<td>8</td>
<td>Time Given by I.T. Authorities to Furnish Information</td>
<td>-36</td>
</tr>
<tr>
<td>9</td>
<td>Distance to be Travelled To Meet I.T. Authorities</td>
<td>-36</td>
</tr>
<tr>
<td>10</td>
<td>Production of Books of Account before I.T. Authorities</td>
<td>-35</td>
</tr>
<tr>
<td>11</td>
<td>Selection of Cases for Scrutiny Assessments</td>
<td>-34</td>
</tr>
<tr>
<td>12</td>
<td>Availability of Prescribed Forms</td>
<td>-31</td>
</tr>
<tr>
<td>13</td>
<td>Accessibility of Income-Tax Authorities</td>
<td>-31</td>
</tr>
<tr>
<td>14</td>
<td>Adjournment/Fixation of Hearings by I.T. Authorities</td>
<td>-29</td>
</tr>
<tr>
<td>15</td>
<td>Availability of C.B.D.T.'s Circulars and Instructions</td>
<td>-27</td>
</tr>
<tr>
<td>16</td>
<td>Representation of Company's Case Before I.T. Authorities</td>
<td>-23</td>
</tr>
<tr>
<td>17</td>
<td>Receipt of Refund Orders</td>
<td>-21</td>
</tr>
<tr>
<td>18</td>
<td>Recording of Statements by Income-Tax Authorities</td>
<td>-17</td>
</tr>
<tr>
<td>19</td>
<td>Maintenance of Books of Account</td>
<td>-17</td>
</tr>
<tr>
<td>20</td>
<td>Preparation and Filing of Income-Tax Returns</td>
<td>-13</td>
</tr>
<tr>
<td>21</td>
<td>Giving Effect by Assessing Officers to Appellate Orders</td>
<td>-12</td>
</tr>
<tr>
<td>22</td>
<td>Compulsory Audit of Books of Account</td>
<td>-9</td>
</tr>
<tr>
<td>23</td>
<td>Survey/Search &amp; Seizure Proceedings</td>
<td>-5</td>
</tr>
<tr>
<td>24</td>
<td>Remittance of Income-Tax through Bank Challans</td>
<td>-5</td>
</tr>
</tbody>
</table>

Problem-ranking for medium-sized companies is based on the computation on linear scale as shown in Annexure II. The first problem of these companies is the same as for small companies. There are variations in the ranking of other problems. Problem-ranking for large companies is shown in Table-4.27.
Table-4.27 : Problem Ranking for Large Companies

<table>
<thead>
<tr>
<th>Rank</th>
<th>Nature of problem faced by companies</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Preliminary Adjustments under Section 143(1)(a)</td>
<td>-56</td>
</tr>
<tr>
<td>2</td>
<td>Cost of Complying with Income-Tax Laws/Rules</td>
<td>-50</td>
</tr>
<tr>
<td>3</td>
<td>Complexity of Income-Tax Laws/Rules</td>
<td>-46</td>
</tr>
<tr>
<td>4</td>
<td>Receipt of Refund Orders</td>
<td>-45</td>
</tr>
<tr>
<td>5</td>
<td>Giving Effect by Assessing Officers to Appellate Orders</td>
<td>-42</td>
</tr>
<tr>
<td>6</td>
<td>Amenities/Facilities available at Income-Tax Offices</td>
<td>-42</td>
</tr>
<tr>
<td>7</td>
<td>Frequency of Visiting Income Tax Office</td>
<td>-35</td>
</tr>
<tr>
<td>8</td>
<td>Availability of C.B.D.T.'s Circulars and Instructions</td>
<td>-35</td>
</tr>
<tr>
<td>9</td>
<td>Distance to be Travelled To Meet I.T. Authorities</td>
<td>-35</td>
</tr>
<tr>
<td>10</td>
<td>Interest/Penalty/Prosecution Proceedings</td>
<td>-30</td>
</tr>
<tr>
<td>11</td>
<td>Representation of Company's Case Before I.T. Authorities</td>
<td>-30</td>
</tr>
<tr>
<td>12</td>
<td>Remittance of Income-Tax through Bank Challans</td>
<td>-30</td>
</tr>
<tr>
<td>13</td>
<td>Adjournment/ Fixation of Hearings by I.T. Authorities</td>
<td>-28</td>
</tr>
<tr>
<td>14</td>
<td>Accessibility of Income-Tax Authorities</td>
<td>-25</td>
</tr>
<tr>
<td>15</td>
<td>Recording of Statements by Income-Tax Authorities</td>
<td>-24</td>
</tr>
<tr>
<td>16</td>
<td>Jurisdiction of Income-Tax Authorities</td>
<td>-24</td>
</tr>
<tr>
<td>17</td>
<td>Survey/Search &amp; Seizure Proceedings</td>
<td>-23</td>
</tr>
<tr>
<td>18</td>
<td>Production of Books of Account before I.T. Authorities</td>
<td>-20</td>
</tr>
<tr>
<td>19</td>
<td>Time Given by I.T. Authorities to Furnish Information</td>
<td>-17</td>
</tr>
<tr>
<td>20</td>
<td>Availability of Prescribed Forms</td>
<td>-16</td>
</tr>
<tr>
<td>21</td>
<td>Compulsory Audit of Books of Account</td>
<td>-12</td>
</tr>
<tr>
<td>22</td>
<td>Selection of Cases for Scrutiny Assessments</td>
<td>-10</td>
</tr>
<tr>
<td>23</td>
<td>Maintenance of Books of Account</td>
<td>-8</td>
</tr>
<tr>
<td>24</td>
<td>Preparation and Filing of Income-Tax Returns</td>
<td>-6</td>
</tr>
</tbody>
</table>

Problem-ranking for large companies is based on computation made in Annexure III. For large companies as well, preliminary adjustments under Section 143(1)(a) of the Income-Tax Act has been the foremost problem. There is variation in the other problems. Problem-ranking for all companies taken together are shown in Table-4.28.
Table-4.28 : Problem Ranking for All Companies

<table>
<thead>
<tr>
<th>Rank</th>
<th>Nature of problem faced by companies</th>
<th>Score</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Preliminary Adjustments under Section 143(l)(a)</td>
<td>-192</td>
</tr>
<tr>
<td>2</td>
<td>Amenities/Facilities available at Income-Tax Offices</td>
<td>-152</td>
</tr>
<tr>
<td>3</td>
<td>Cost of Complying with Income-Tax Laws/Rules</td>
<td>-151</td>
</tr>
<tr>
<td>4</td>
<td>Interest/Penalty/Prosecution Proceedings</td>
<td>-121</td>
</tr>
<tr>
<td>5</td>
<td>Complexity of Income-Tax Laws/Rules</td>
<td>-120</td>
</tr>
<tr>
<td>6</td>
<td>Distance to be Travelled To Meet I.T. Authorities</td>
<td>-110</td>
</tr>
<tr>
<td>7</td>
<td>Frequency of Visiting Income Tax Office</td>
<td>-101</td>
</tr>
<tr>
<td>8</td>
<td>Availability of C.B.D.T.'s Circulars and Instructions</td>
<td>-94</td>
</tr>
<tr>
<td>9</td>
<td>Receipt of Refund Orders</td>
<td>-86</td>
</tr>
<tr>
<td>10</td>
<td>Adjournment/Fixation of Hearings by I.T. Authorities</td>
<td>-83</td>
</tr>
<tr>
<td>11</td>
<td>Jurisdiction of Income-Tax Authorities</td>
<td>-79</td>
</tr>
<tr>
<td>12</td>
<td>Time Given by I.T. Authorities to Furnish Information</td>
<td>-78</td>
</tr>
<tr>
<td>13</td>
<td>Availability of Prescribed Forms</td>
<td>-76</td>
</tr>
<tr>
<td>14</td>
<td>Giving Effect by Assessing Officers to Appellate Orders</td>
<td>-75</td>
</tr>
<tr>
<td>15</td>
<td>Recording of Statements by Income-Tax Authorities</td>
<td>-72</td>
</tr>
<tr>
<td>16</td>
<td>Selection of Cases for Scrutiny Assessments</td>
<td>-68</td>
</tr>
<tr>
<td>17</td>
<td>Production of Books of Account before I.T. Authorities</td>
<td>-67</td>
</tr>
<tr>
<td>18</td>
<td>Representation of Company's Case Before I.T. Authorities</td>
<td>-59</td>
</tr>
<tr>
<td>19</td>
<td>Accessibility of Income-Tax Authorities</td>
<td>-56</td>
</tr>
<tr>
<td>20</td>
<td>Remittance of Income-Tax through Bank Challans</td>
<td>-49</td>
</tr>
<tr>
<td>21</td>
<td>Compulsory Audit of Books of Account</td>
<td>-47</td>
</tr>
<tr>
<td>22</td>
<td>Survey/Search &amp; Seizure Proceedings</td>
<td>-45</td>
</tr>
<tr>
<td>23</td>
<td>Maintenance of Books of Account</td>
<td>-39</td>
</tr>
<tr>
<td>24</td>
<td>Preparation and Filing of Income-Tax Returns</td>
<td>-29</td>
</tr>
</tbody>
</table>

The problem-ranking for all companies considered together is based on computation shown in Annexure IV. While the first problem is that of preliminary adjustments under Section 143(l)(a) of the Income-Tax Act, followed by the problem of amenities/facilities at income-tax offices. Cost of compliance with income-tax laws/rules is the third most important problem.
3. Tax Reforms Programme: Companies’ Perspective

In addition to identifying problem-areas in corporate tax administration and analysing the impact of the tax reforms programme in mitigating the problems, this study has also attempted to elicit the views of sample companies on different aspects of the programme, so as to arrive at a meaningful evaluation of the reforms programme in the first three years of its implementation, mainly from the taxpayers’ perspective. Questions were posed to the sample companies about the direction and effects of the tax reforms programme, the degree of improvement in the tax administration machinery after the initiation of reforms in terms of its efficiency, effectiveness and responsiveness, rate structure of corporation income-tax, cost of compliance with income-tax laws/rules, time taken up by income-tax proceedings and about what needs to be done to improve tax compliance, tax collections and tax administration in the country. The sample companies’ responses to these questions are discussed in the following paragraphs:

3.1 Direction of Tax Reforms

Sample companies were asked to indicate if they thought that the tax reforms being undertaken by the Government in recent years were in the right direction. Having said this, companies cited the three reasons, namely, that revenue collections by Government had increased, that tax compliance had become easier and that tax evasion had come down, in the same order of preference. There is no difference in the priority assigned to the above three reasons by the large, medium-sized and small companies.

The first reason cited by sample companies is borne out by the actual tax collection of corporation taxes in the country, which has risen from Rs. 4,729 crore in 1989-90 (47.25 per cent of all direct taxes and 1.2 per cent of Gross Domestic Product) to Rs. 13,821 crore in 1994-95 (51.24 per cent of all direct taxes and 1.6 per
The average annual rate of increase in the collection of corporation income-tax thus works out to 32 per cent in nominal terms. Compared with the collection of corporation income-tax in the year 1991-92 (just before the initiation of tax reforms), the rate of increase in collection works out to 25 per cent in nominal terms (from Rs. 7,868 crore in 1991-92 to Rs. 13,821 crore in 1994-95).

However, as regards tax compliance, companies have, in their priority ranking of problem-areas (discussed in earlier paragraphs), identified the cost of compliance and the complexity of income-tax laws/rules as one of the first five problems still confronting them and have indicated a high degree of 'No Change' situation (in Annexure V to this Chapter). The ease of tax compliance indicated in response to this question therefore appears to be more due to the high degree of positive change recorded by them in the matter of complexity of income-tax laws/rules. As regards the third reason cited, it is heartening to note that sample companies think that reforms have reduced tax evasion, although there is no direct evidence to corroborate such a conclusion.

Companies which did not think that the tax reforms programme was in the right direction cited four reasons for such a view, namely, that changes in laws/rules are too frequent, that income-tax laws/rules had become more complex, that the cost of compliance had increased and that tax laws/rules were unduly influencing companies' decisions, in this order of preference.

The first reason cited by companies finding that the tax reforms programme is not moving in the right direction is understandable in the light of the frequent amendments made to the Income-Tax Act and the Income-Tax Rules in recent times. The need to maintain a stable tax policy and not to tinker with the tax

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laws/rules have, however, been recognized by the Government since as far back as 1985, when the Government of India had formulated its Long Term Fiscal Policy\textsuperscript{18} and this objective has also been reiterated by successive Finance Ministers after the initiation of tax reforms. It can only be hoped that the much-needed stability of tax policies would become a reality.

Closely connected with this aspect is the fourth reason advanced by sample companies, namely, that the tax laws/rules were unduly influencing their decisions. It is important for companies to know in advance about the nature and extent of tax burden they are expected to bear in the short- and medium-term periods, so that they can plan their investments and make other crucial decisions concerning their day-to-day affairs, without being unduly influenced by the tax policies of the Government. The tax reforms programme should take better notice of this need of the corporate taxpayers.

As regards the complexity of tax laws and the cost of compliance, the responses of sample companies in identifying these as problem-areas have already been discussed above. Small companies have experienced the greatest positive change after reforms with regard to the problem of complex tax laws/rules, and this trend needs to be continued by further simplification of laws/rules and administrative procedures.

3.2 Effects of Tax Reforms

Sample companies were asked to indicate what effects the tax reforms programme would have and to rank those effects in the order of their priority. Four effects of tax reforms have been identified and the three groups of sample companies have ranked them in different ways, as reflected in Table-4.29.

**Table-4.29 : Effects of Tax Reforms**

<table>
<thead>
<tr>
<th>Effects of Reforms</th>
<th>Priority Rankings</th>
<th>S*</th>
<th>M*</th>
<th>L*</th>
<th>A*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Widening of the tax base</td>
<td></td>
<td>II</td>
<td>III</td>
<td>III</td>
<td>III</td>
</tr>
<tr>
<td>Improvement in tax compliance</td>
<td></td>
<td>I</td>
<td>IV</td>
<td>II</td>
<td>II</td>
</tr>
<tr>
<td>Increase in revenue collections</td>
<td></td>
<td>IV</td>
<td>I</td>
<td>IV</td>
<td>IV</td>
</tr>
<tr>
<td>Improvement in tax administration</td>
<td></td>
<td>III</td>
<td>II</td>
<td>I</td>
<td>I</td>
</tr>
</tbody>
</table>

S*= Small Companies; M*= Medium-sized Companies; L*= Large Companies; A*= All Companies

As can be seen from the above Table, small companies think that improvement in tax compliance is the most important effect of the reforms programme, followed by widening of the tax base, improvement in tax administration and increase in revenue collections. For medium-sized companies, however, increase in revenue collections is the most important effect of reforms, followed by improvement in tax administration, widening of the tax base and improvement in tax compliance. Large companies feel that the most important effect of the reforms programme is the improvement in tax administration, followed by improvement in tax compliance, widening of the tax base and increase in revenue collections. When rankings of all companies are considered together, the prioritisation of effects is similar to that of large companies. Thus, the perception of the effects of tax reforms differs among the three groups of companies, although, on the whole, improvement in tax administration happens to be the most desired effect of tax reforms, in the opinion of all companies taken together.

### 3.3 Improvement in Tax Administration Machinery

Asked whether they thought the tax administration machinery had improved after the introduction of reforms, about 58 per cent of all companies have replied in the affirmative, about 37 per cent of all companies have replied in the negative and nearly 5 per cent of all companies have opined that the administrative machinery had neither improved nor deteriorated. As regards the degree of improvement, more
than 45 per cent of all companies categorized the degree of improvement as negligible, about 44 per cent of all companies feel that the improvement is appreciable and nearly 11 per cent of them have noted that the improvement in the tax administration machinery after the initiation of reforms is satisfactory. Sample companies were asked to indicate the level of efficiency and effectiveness of the tax administration machinery in the pre- and post-reforms periods, so as to examine if reforms have had any effect on these attributes of tax administration. Companies had to choose one of the three alternative levels indicated in the questionnaire, namely, Inefficient and Ineffective (Level 1), Moderately Efficient and Effective (Level 2) and Highly Efficient and Effective (Level 3). The extent of change in levels of efficiency and effectiveness of tax administration as a result of the reforms programme is reflected in nine different combinations of pre- and post-reforms levels such as 1 - 1, 1 - 2, 1 - 3, 2 - 1, 2 - 2, 2 - 3, 3 - 1, 3 - 2 and 3 - 3. These combinations of responses are further grouped into three broad categories, namely, No Change (Combinations 1 - 1, 2 - 2 and 3 - 3), Positive Change (Combinations 1 - 2, 1 - 3 and 2 - 3) and Negative Change (Combinations 2 - 1, 3 - 1 and 3 - 2). Actual responses given by sample companies to this question is presented in Table-4.30.

Table-4.30 : Efficiency & Effectiveness of Tax Administration

<table>
<thead>
<tr>
<th>Type of Change</th>
<th>Small Companies (%)</th>
<th>Medium-Sized Cos. (%)</th>
<th>Large Companies (%)</th>
<th>All Companies (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Change:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 - 1</td>
<td>7.0</td>
<td>14.0</td>
<td>5.3</td>
<td>8.8</td>
</tr>
<tr>
<td>2 - 2</td>
<td>70.2</td>
<td>57.9</td>
<td>76.8</td>
<td>68.2</td>
</tr>
<tr>
<td>3 - 3</td>
<td>3.5</td>
<td>3.5</td>
<td>1.8</td>
<td>2.9</td>
</tr>
<tr>
<td>Sub-Total</td>
<td>80.7</td>
<td>75.4</td>
<td>83.9</td>
<td>79.9</td>
</tr>
<tr>
<td>Positive Change:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 - 2</td>
<td>14.0</td>
<td>19.3</td>
<td>7.1</td>
<td>13.5</td>
</tr>
<tr>
<td>1 - 3</td>
<td>-</td>
<td>1.8</td>
<td>1.8</td>
<td>1.2</td>
</tr>
<tr>
<td>2 - 3</td>
<td>5.3</td>
<td>1.8</td>
<td>7.1</td>
<td>4.7</td>
</tr>
<tr>
<td>Sub-Total</td>
<td>19.3</td>
<td>22.9</td>
<td>16.0</td>
<td>19.4</td>
</tr>
<tr>
<td>Negative Change:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 - 1</td>
<td>-</td>
<td>1.7</td>
<td>-</td>
<td>0.7</td>
</tr>
<tr>
<td>3 - 1</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>3 - 2</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Sub-Total</td>
<td>-</td>
<td>1.7</td>
<td>-</td>
<td>0.7</td>
</tr>
<tr>
<td>Grand Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>
As we can see from Table-4.30, nearly 80 per cent of all companies experienced 'no change' in the efficiency and effectiveness of the tax administration after the initiation of reforms. Within this group, the predominant classification is 'Moderately Efficient and Effective'. More than 19 per cent of all companies experienced a positive change in the efficiency and effectiveness of tax administration and most of them indicate a change from the 'Inefficient and Ineffective' level to the 'Moderately Efficient and Effective' level. Only an insignificant 1.7 per cent of medium-sized companies, representing 0.7 per cent of all companies, have indicated a negative change and a movement from the 'Moderately Efficient and Effective' level to the 'Inefficient and Ineffective' level.

While the tax administration has not been classified as 'Inefficient and Ineffective' by sample companies, no company has chosen the 'Highly Efficient and Effective' level either, the attainment of which should be the goal of any tax administration. To improve the effectiveness of tax administration, sample companies have suggested the introduction of “System Audit” or “Management Audit” to be undertaken at periodic intervals by professional administrative and management experts.

Responsiveness of the tax administration before and after reforms has also been ranked similarly by the sample companies with the three combinations explained above. However, level 1 here indicates that the tax administration is Highly Responsive, level 2 indicates that it is Moderately Responsive and level 3 indicates that it is Unresponsive 19. Companies’ views on this aspect of administration is given in Table-4.31.

19The order of stating the three combinations was inadvertently reversed in the Questionnaire, owing to a printing mistake. Analysis of data has, however, taken this mistake into account and it does not suffer from the same.
Table-4.31: Responsiveness of Tax Administration

<table>
<thead>
<tr>
<th>Type of Change</th>
<th>Small Companies (%)</th>
<th>Medium-Sized Cos. (%)</th>
<th>Large Companies (%)</th>
<th>All Companies (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>No Change:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 - 1</td>
<td>14.2</td>
<td>5.3</td>
<td>1.8</td>
<td>7.1</td>
</tr>
<tr>
<td>2 - 2</td>
<td>63.2</td>
<td>49.0</td>
<td>67.9</td>
<td>60.0</td>
</tr>
<tr>
<td>3 - 3</td>
<td>8.6</td>
<td>15.8</td>
<td>3.6</td>
<td>9.4</td>
</tr>
<tr>
<td><strong>Sub-Total:</strong></td>
<td>86.0</td>
<td>70.1</td>
<td>73.3</td>
<td>76.5</td>
</tr>
<tr>
<td><strong>Positive Change:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 - 1</td>
<td>5.3</td>
<td>1.8</td>
<td>7.1</td>
<td>4.7</td>
</tr>
<tr>
<td>3 - 1</td>
<td>-</td>
<td>-</td>
<td>3.5</td>
<td>1.2</td>
</tr>
<tr>
<td>3 - 2</td>
<td>-</td>
<td>26.3</td>
<td>16.1</td>
<td>14.1</td>
</tr>
<tr>
<td><strong>Sub-Total:</strong></td>
<td>5.3</td>
<td>28.1</td>
<td>26.7</td>
<td>20.0</td>
</tr>
<tr>
<td><strong>Negative Change:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 - 2</td>
<td>8.7</td>
<td>-</td>
<td>-</td>
<td>2.9</td>
</tr>
<tr>
<td>1 - 3</td>
<td>-</td>
<td>1.8</td>
<td>-</td>
<td>0.6</td>
</tr>
<tr>
<td>2 - 3</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Sub-Total:</strong></td>
<td>8.7</td>
<td>1.8</td>
<td>-</td>
<td>3.5</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

In Table-4.31, a movement from level 1 before reforms to level 1 after reforms reflects a position of ‘no change’ in the responsiveness of tax administration before and after reforms and so do combinations 2 - 2 and 3 - 3. A movement from level 2 before reforms to level 1 after reforms indicates a ‘positive change’ as also the combinations of responses 3 - 1 and 3 - 2. The ‘negative changes’ are reflected by the combinations of responses 1 - 2, 1 - 3 and 2 - 3.

Accordingly, it can be interpreted that, more than 76 per cent of all companies have not experienced any change in the responsiveness of tax administration after reforms and for most of them (60 per cent), the tax administration has been moderately responsive. 20 per cent of all companies have indicated a positive change or improvement in the responsiveness of tax administration, the most dominant movement being from the ‘Unresponsive’ level before reforms to the ‘Moderately Responsive’ level after reforms (about 14 per cent of all companies). About 4 per cent of these companies have experienced a negative change in the responsiveness of administration, after initiation of reforms.
3.4 Rate Structure of Corporation Income-Tax

Sample companies were asked to indicate whether the rates of corporation income-tax prevailing before and after reforms were 'Too High' (Response 1), 'Moderate' (Response 3), 'Just Correct' (Response 4), or 'Arbitrary' (Response 2). Response combinations 1 - 1, 2 - 2, 3 - 3 and 4 - 4 indicate a position of 'No Change', response combinations 1 - 3, 1 - 4, 2 - 3 and 2 - 4 reflect a 'Positive Change' and response combination 1 - 2 reflects a 'Negative Change'. Companies’ views in this regard are presented in Table-4.32.

Table-4.32: Rate Structure of Corporation Income-Tax

<table>
<thead>
<tr>
<th>Type of Change</th>
<th>Small Companies (%)</th>
<th>Medium-Sized Cos. (%)</th>
<th>Large Companies (%)</th>
<th>All Companies (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Change:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 - 1</td>
<td>22.8</td>
<td>28.1</td>
<td>32.1</td>
<td>27.6</td>
</tr>
<tr>
<td>2 - 2</td>
<td>-</td>
<td>1.8</td>
<td>-</td>
<td>0.6</td>
</tr>
<tr>
<td>3 - 3</td>
<td>10.5</td>
<td>10.5</td>
<td>-</td>
<td>7.1</td>
</tr>
<tr>
<td>4 - 4</td>
<td>3.5</td>
<td>-</td>
<td>-</td>
<td>1.2</td>
</tr>
<tr>
<td>Sub-Total</td>
<td>36.8</td>
<td>40.4</td>
<td>32.1</td>
<td>36.5</td>
</tr>
<tr>
<td>Positive Change:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 - 3</td>
<td>26.3</td>
<td>32.1</td>
<td>37.5</td>
<td>31.8</td>
</tr>
<tr>
<td>1 - 4</td>
<td>5.3</td>
<td>-</td>
<td>3.6</td>
<td>2.8</td>
</tr>
<tr>
<td>2 - 3</td>
<td>7.0</td>
<td>7.0</td>
<td>16.1</td>
<td>10.0</td>
</tr>
<tr>
<td>2 - 4</td>
<td>1.8</td>
<td>1.8</td>
<td>1.8</td>
<td>1.8</td>
</tr>
<tr>
<td>Sub-Total</td>
<td>40.4</td>
<td>39.1</td>
<td>59.0</td>
<td>46.4</td>
</tr>
<tr>
<td>Negative Change:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 - 2</td>
<td>22.8</td>
<td>19.3</td>
<td>8.9</td>
<td>17.1</td>
</tr>
<tr>
<td>Grand Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

More than 36 per cent of all companies have not perceived any improvement after reforms and most (about 28 per cent) of them feel that the rate is ‘too high’. On the contrary, more than 46 per cent of all companies have experienced a positive change and the biggest section of them (nearly 32 per cent) feels that the change has been from the ‘very high’ to the ‘moderate’ level. More than 17 per cent of all companies

20The combinations and their levels were erroneously stated in the Questionnaire, by an inadvertent printing mistake. The analysis of data has, however, taken note of these errors and has made suitable changes to overcome the effect of errors.
companies say they have experienced a negative change and that the tax rates have moved from the ‘very High’ level to the ‘arbitrary’ level.

Actual trends with regard to the rates of corporation income-tax in India during the period of this study (from assessment year 1990-91 to assessment year 1995-96) show that there has been a continuous reduction in the statutory rates. Further, the effective tax rates of sample companies have also declined during the same period. The statutory and effective tax rates of corporation income-tax during the period of study are shown in Table-4.33. The statutory rates shown in the Table represent the average rates prescribed in the respective Finance Acts for domestic companies of all categories and include surcharge.

Table-4.33 : Statutory and Effective Rates of Corporation Income-Tax

<table>
<thead>
<tr>
<th>Assessment Years</th>
<th>Statutory Rate1 (%)</th>
<th>Effective Tax Rates (%)</th>
<th>Difference between Statutory and Effective Tax Rates (Percentage points)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>S*</td>
<td>M*</td>
<td>L*</td>
</tr>
<tr>
<td>1990-91</td>
<td>59.4</td>
<td>15.0</td>
<td>11.0</td>
</tr>
<tr>
<td>1991-92</td>
<td>51.7</td>
<td>15.3</td>
<td>12.4</td>
</tr>
<tr>
<td>1992-93</td>
<td>50.3</td>
<td>18.7</td>
<td>12.8</td>
</tr>
<tr>
<td>1993-94</td>
<td>50.3</td>
<td>18.1</td>
<td>11.3</td>
</tr>
<tr>
<td>1994-95</td>
<td>50.3</td>
<td>14.8</td>
<td>11.8</td>
</tr>
<tr>
<td>1995-96</td>
<td>46.0</td>
<td>11.0</td>
<td>6.4</td>
</tr>
</tbody>
</table>

1Including surcharge. Statutory Rates indicated are as applicable to domestic companies only.
S* = Small Companies; M* = Medium Companies; L* = Large Companies; A* = All Companies

As the Table shows, there is not only a wide divergence between the statutory and effective tax rates among all categories of companies, but the same has also occurred in all assessment years covered in the study, irrespective of whether the statutory rates had been reduced or held constant by the Government in those assessment years. This casts serious doubts on the widely-held belief that tax compliance always increases with a reduction in tax rates.

In view of the position reflected in the above Table, it is not possible to accept the view that there has been no change with regard to the rates of corporation income-tax during reforms and also that there has been a movement...
towards arbitrary rates of tax. The statutory rates are in line with rates prevailing in other countries of the world (see Appendix I). As a matter of fact, the large gap between the statutory and effective tax rates calls for an increase in tax rates or for drastic cuts in tax deductions and exemptions allowed to companies, statutory tax rates remaining the same. In fixing the statutory rates, therefore, due notice should always be taken of the effective tax rates prevailing at a given point of time.

3.5 Cost of Compliance with Income-Tax Laws/Rules:

An important objective of tax reforms must be to reduce the cost of compliance with the tax laws/rules, so that companies complying with the laws are not made to shoulder additional indirect costs in addition to the tax burden. Another danger of an increased cost of compliance is that, as the latter increases, the incentive for compliance might decrease and tax evasion might become more attractive to taxpayers. In order, therefore, to assess the cost of compliance for companies before reforms and how it has changed after reforms, sample companies were asked to indicate these two aspects by marking the appropriate choices in the questionnaires. The term “cost of compliance”, as understood in this discussion, includes the amount spent by companies in a given financial year in relation to functions they perform for complying with the income-tax laws/rules, beginning with the filing of returns till the receipt of assessment or appellate orders, regardless of the assessment year to which income-tax proceedings held in that financial year might relate. Sample companies had to choose one option among the four given in the questionnaire, to indicate the cost of compliance before and after reforms. These options were Too High (Level 1), Moderate (Level 2), High (Level 3) and Low (Level 4).21 A transition from Level 1 in the pre-reforms period to Levels 2, 3, or 4 in the post-reforms period or from Level 2 to Level 4 or from Level 3 to Levels 2 or

21The combinations and their levels were erroneously stated in the Questionnaire, by an inadvertent printing mistake. The analysis of data has, however, taken note of these errors and has made suitable changes to overcome the effect of errors.
4 would indicate a positive change or decrease in the cost of compliance, whereas, a transition from Levels 2 to 1, 3 to 1, 2 to 3, 4 to 1, 4 to 2, or 4 to 3 would indicate a negative change or increase in the cost of compliance. Transition levels 1 to 1, 2 to 2, 3 to 3 or 4 to 4 would indicate positions of no change. Table-4.34 gives a detailed picture.

Table-4.34 : Cost of Compliance with Income-Tax Laws/Rules

<table>
<thead>
<tr>
<th>Type of Change</th>
<th>Small Companies (%</th>
<th>Medium-Sized Cos. (%)</th>
<th>Large Companies (%)</th>
<th>All Companies (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>No Change:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 - 1</td>
<td>7.0</td>
<td>10.5</td>
<td>5.3</td>
<td>7.6</td>
</tr>
<tr>
<td>2 - 2</td>
<td>57.9</td>
<td>59.6</td>
<td>53.6</td>
<td>57.1</td>
</tr>
<tr>
<td>3 - 3</td>
<td>8.7</td>
<td>10.5</td>
<td>10.7</td>
<td>10.0</td>
</tr>
<tr>
<td>4 - 4</td>
<td>1.8</td>
<td>0.6</td>
<td>0.6</td>
<td></td>
</tr>
<tr>
<td>Sub-Total</td>
<td>75.4</td>
<td>80.6</td>
<td>69.6</td>
<td>75.3</td>
</tr>
<tr>
<td>Positive Change:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 - 2</td>
<td></td>
<td></td>
<td></td>
<td>2.9</td>
</tr>
<tr>
<td>1 - 3</td>
<td>7.0</td>
<td>1.8</td>
<td>-</td>
<td>2.9</td>
</tr>
<tr>
<td>1 - 4</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>2 - 3</td>
<td>7.1</td>
<td>7.2</td>
<td>8.9</td>
<td>7.6</td>
</tr>
<tr>
<td>2 - 4</td>
<td>-</td>
<td>-</td>
<td>1.8</td>
<td>0.6</td>
</tr>
<tr>
<td>3 - 4</td>
<td>3.5</td>
<td>-</td>
<td>-</td>
<td>1.2</td>
</tr>
<tr>
<td>Sub-Total</td>
<td>21.1</td>
<td>14.2</td>
<td>14.3</td>
<td>16.4</td>
</tr>
<tr>
<td>Negative Change:</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 - 1</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1.8</td>
</tr>
<tr>
<td>3 - 2</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1.8</td>
</tr>
<tr>
<td>4 - 1</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>0.6</td>
</tr>
<tr>
<td>4 - 2</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>4 - 3</td>
<td>-</td>
<td>-</td>
<td>7.2</td>
<td>2.4</td>
</tr>
<tr>
<td>Sub-Total</td>
<td>3.5</td>
<td>5.2</td>
<td>16.1</td>
<td>8.3</td>
</tr>
<tr>
<td>Grand Total</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

It can be seen from this Table that more than 75 per cent of all companies feel that the cost of complying with the income-tax laws/rules has remained the same before and after reforms and about 57 per cent of them feel that the cost of compliance is moderate. About 16 per cent of all companies have experienced a positive change in this regard and the pre-dominant move is from the ‘high’ to the ‘moderate’ level. About 8 per cent of all companies have experienced a negative change in the cost of compliance from the ‘moderate’ to the ‘high’ level.

Sample companies have also furnished data on their actual average cost of compliance with income-tax laws/rules for both the pre- and post-reforms period.
Table-4.35 below presents the comparative picture of the average cost of compliance incurred by sample companies before and after reforms:

**Table-4.35 : Change in Cost of Compliance with I.T. Laws/Rules**

<table>
<thead>
<tr>
<th>Category of Companies</th>
<th>Average Cost of Compliance (Rupees Lakhs per Year)</th>
<th>Rate of Increase (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Before</td>
<td>After Reforms</td>
</tr>
<tr>
<td>Small Companies</td>
<td>0.33</td>
<td>0.48</td>
</tr>
<tr>
<td>Medium-sized Companies</td>
<td>3.98</td>
<td>4.48</td>
</tr>
<tr>
<td>Large Companies</td>
<td>4.63</td>
<td>5.33</td>
</tr>
<tr>
<td>All Companies</td>
<td>3.02</td>
<td>3.40</td>
</tr>
</tbody>
</table>

Data obtained from companies reveal that there has been an increase in the average cost of compliance with income-tax laws/rules for all categories of companies. The rate of increase has been the highest for small companies (more than 45 per cent), followed by large companies (about 15 per cent) and medium-sized companies (nearly 13 per cent). For all companies taken together, the increase in the average cost of compliance has been about 13 per cent.

**3.6 Time consumed by Income-Tax Proceedings**

The time consumed by income-tax proceedings (beginning with the filing by companies of their income-tax returns, till the receipt of assessment orders, excluding the time taken for appellate proceedings, if any) also imposes an indirect cost on companies which are made to devote time on matters concerning an earlier year, rather than concentrating on their present or future affairs. Thus it is imperative that a successful tax reforms programme take this aspect into account and attempt to reduce the time span of income-tax proceedings.

The benefits of such a reduction of time would certainly accrue to the tax administration as well, in terms of time saved on existing proceedings which could be more productively utilised for other pending proceedings. The Bhoothalingam
Committee pointed out that, "if work on petty assessments is cut out, the improvement in the quality and speed with which the remaining work can be done - e.g., by expeditious disposal of appeal, better investigation, etc., will lead to increase of tax collections by Rs 100 crores for some years besides an immediate increase of about Rs 200 crores merely by finalisation of pending assessments" 22. To measure the effect of the reforms programme on the time-span of income-tax proceedings, sample companies were asked to indicate whether the time taken up by income-tax proceedings was Too Long (Level 1), or Just Alright (Level 2), or Too Quick (Level 3)23. Companies who have not experienced any change in this regard after reforms would indicate a No Change position by choosing one of the combinations of levels 1 to 1 or 2 to 2 or 3 to 3. Companies experiencing a Positive Change would choose one of the combinations of levels 1 to 2, or 1 to 3, or 2 to 3, while companies experiencing a Negative Change would choose the combinations of levels 2 to 1, or 3 to 1, or 3 to 2. Actual responses of sample companies to this question are presented in Table-4.36.

**Table-4.36 : Time consumed by Income-Tax Proceedings**

<table>
<thead>
<tr>
<th>Type of Change</th>
<th>Small Companies (%)</th>
<th>Medium-Sized Cos. (%)</th>
<th>Large Companies (%)</th>
<th>All Companies (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>No Change:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 - 1</td>
<td>31.6</td>
<td>43.9</td>
<td>58.9</td>
<td>44.7</td>
</tr>
<tr>
<td>2 - 2</td>
<td>26.3</td>
<td>24.5</td>
<td>28.6</td>
<td>26.5</td>
</tr>
<tr>
<td>3 - 3</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Sub-Total</strong></td>
<td>57.9</td>
<td>68.4</td>
<td>87.5</td>
<td>71.2</td>
</tr>
<tr>
<td><strong>Positive Change:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1 - 2</td>
<td>33.3</td>
<td>29.8</td>
<td>12.5</td>
<td>25.2</td>
</tr>
<tr>
<td>1 - 3</td>
<td>1.8</td>
<td>-</td>
<td>-</td>
<td>0.6</td>
</tr>
<tr>
<td>2 - 3</td>
<td>7.0</td>
<td>-</td>
<td>-</td>
<td>2.4</td>
</tr>
<tr>
<td><strong>Sub-Total</strong></td>
<td>42.1</td>
<td>29.8</td>
<td>12.5</td>
<td>28.2</td>
</tr>
<tr>
<td><strong>Negative Change:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2 - 1</td>
<td>-</td>
<td>1.8</td>
<td>-</td>
<td>0.6</td>
</tr>
<tr>
<td>3 - 1</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>3 - 2</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td><strong>Sub-Total</strong></td>
<td>-</td>
<td>1.8</td>
<td>-</td>
<td>0.6</td>
</tr>
<tr>
<td><strong>Grand Total</strong></td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>


23The order of stating the three combinations was inadvertently reversed in the Questionnaire, owing to a printing mistake. Analysis of data has, however, taken this mistake into account and it does not suffer from the same.
The Table indicates that about 71 per cent of all companies have experienced no change after reforms, as far as the time taken up of income-tax proceedings is concerned. Further, nearly 45 per cent of all companies feel that the time taken is 'too long'. About 28 per cent of all companies have reported a positive change and most (about 25 per cent) of them have rated the change as having been from 'too long' to 'just alright'. A negligible 1.8 per cent of medium-sized companies, representing 0.6 per cent of all companies, has reported a negative change, from 'just Alright' to 'too Long'.

Sample companies have indicated the actual average time consumed (in months) by the income-tax proceedings (from the time of filing of returns till the receipt of assessment orders) before and after reforms. A comparative picture of the time taken in the two periods is presented in Table-4.37.

Table-4.37 : Change in Time taken up by Income-Tax Proceedings

<table>
<thead>
<tr>
<th>Category of Companies</th>
<th>Average Time taken up by Income-Tax Proceedings (Months)*</th>
<th>Rate of Decrease (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Before Reforms</td>
<td>After Reforms</td>
</tr>
<tr>
<td>Small Companies</td>
<td>23</td>
<td>17</td>
</tr>
<tr>
<td>Medium-sized Companies</td>
<td>26</td>
<td>21</td>
</tr>
<tr>
<td>Large Companies</td>
<td>24</td>
<td>22</td>
</tr>
<tr>
<td>All Companies</td>
<td>21</td>
<td>20</td>
</tr>
</tbody>
</table>

* Rounded off to the nearest month.

As the above Table demonstrates, reforms have had a very positive effect insofar as the average time consumed by income-tax proceedings is concerned. There has been a decrease in the average time taken up and the highest decrease is in respect of small companies (about 26 per cent), followed by medium-sized companies (about 19 per cent) and large companies (about 8 per cent). For all companies taken together, the decrease is of the order of nearly 5 per cent.
4. Measures to Improve Tax Compliance, Collections & Administration

After studying the problem-areas of companies and their view on the tax reforms programme, the focus shifts to what needs to be done to improve tax compliance, tax collections and tax administration in the country, with regard to the taxation of companies. In the questionnaires sent to sample companies, 23 reform measures were indicated and sample companies were asked to rank those measures in the order of priority. The rank preferences of these companies have been analysed and a priority chart of reform measures to be undertaken has been prepared for each category of sample companies and for all companies taken together, by following the method described in the succeeding paragraphs.

In preparing the priority charts, all companies have not chosen every reform measure indicated in the questionnaire, either because many of the measures suggested in the questionnaires are mutually exclusive or simply because the companies may not just think that such a measure is called for. To eliminate the distortion caused by the different number of companies responding to each reform measure, the following procedure has been adopted for arriving at the companies’ aggregate category-wise ranking of reform measures.

Since there are 23 items to be ranked, each rank has been assigned with a weight on a scale ranging from 1 to 23, with the first rank being assigned with a weight of 23 and the 23rd rank being assigned a weight of 1 and all other ranks in between being assigned with corresponding intermediate weights. By multiplying the highest rank assigned by the largest number of companies to each reform measure by the weight assigned to that rank, a Rank Value has been arrived at. Further, since each reform measure has been chosen by different number of companies, a Rank Coefficient has been worked out for each measure by dividing the number of companies that have assigned priority ranking to that measure by the total number of sample companies in that category (57 in the case of small and medium
companies, 56 in the case of large companies and 170 in the case of all companies), so that comparison of rankings given to different reform measures becomes possible. Next, for each reform measure suggested, the rank assigned by the highest number of companies is multiplied by its rank value, which is in turn multiplied by the number of companies that have assigned that rank. This product is further multiplied by the rank coefficient of that reform measure, to arrive at a final Score for each measure. The reform measures are then arranged in the descending order of their scores, to determine the final priority ranking for each category of companies and for all companies taken together. The final rankings of reform measures determined for the small, medium-sized, large and all companies are shown in Table-4.38 to Table-4.41.

Table 4.38: Ranking of Reform Measures by Small Companies

<table>
<thead>
<tr>
<th>Reform Measures</th>
<th>Responding Cos.</th>
<th>Co-efficient</th>
<th>Highest Rank given</th>
<th>Weight assigned</th>
<th>No. of Cos.</th>
<th>Score *</th>
<th>Priority Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduce tax rates &amp; abolish surcharge</td>
<td>54</td>
<td>0.947</td>
<td>1</td>
<td>23</td>
<td>41</td>
<td>893</td>
<td>1</td>
</tr>
<tr>
<td>Improve training of I.T. personnel</td>
<td>36</td>
<td>0.632</td>
<td>8</td>
<td>16</td>
<td>10</td>
<td>809</td>
<td>2</td>
</tr>
<tr>
<td>Simplify procedures/forms prescribed</td>
<td>53</td>
<td>0.930</td>
<td>3</td>
<td>21</td>
<td>13</td>
<td>762</td>
<td>3</td>
</tr>
<tr>
<td>Improve public relations</td>
<td>43</td>
<td>0.754</td>
<td>9</td>
<td>15</td>
<td>7</td>
<td>713</td>
<td>4</td>
</tr>
<tr>
<td>Simplify income-tax law</td>
<td>49</td>
<td>0.860</td>
<td>9</td>
<td>15</td>
<td>6</td>
<td>697</td>
<td>5</td>
</tr>
<tr>
<td>Computerise the operations of I.T.</td>
<td>45</td>
<td>0.789</td>
<td>2</td>
<td>22</td>
<td>16</td>
<td>555</td>
<td>6</td>
</tr>
<tr>
<td>Decrease tax deductions at source</td>
<td>36</td>
<td>0.632</td>
<td>11</td>
<td>13</td>
<td>6</td>
<td>542</td>
<td>7</td>
</tr>
<tr>
<td>Increase exemptions and deductions</td>
<td>34</td>
<td>0.596</td>
<td>7</td>
<td>17</td>
<td>7</td>
<td>496</td>
<td>8</td>
</tr>
<tr>
<td>Improve amenities at Income-Tax</td>
<td>39</td>
<td>0.684</td>
<td>6</td>
<td>18</td>
<td>6</td>
<td>443</td>
<td>9</td>
</tr>
<tr>
<td>Improve service conditions of</td>
<td>29</td>
<td>0.509</td>
<td>7</td>
<td>17</td>
<td>4</td>
<td>242</td>
<td>10</td>
</tr>
<tr>
<td>Reorganize jurisdiction of I.T. authys</td>
<td>26</td>
<td>0.456</td>
<td>2</td>
<td>22</td>
<td>12</td>
<td>241</td>
<td>11</td>
</tr>
<tr>
<td>Reduce discretionary powers of</td>
<td>21</td>
<td>0.368</td>
<td>8</td>
<td>16</td>
<td>4</td>
<td>188</td>
<td>12</td>
</tr>
<tr>
<td>Reduce contact of taxpayers &amp; officers</td>
<td>27</td>
<td>0.474</td>
<td>6</td>
<td>18</td>
<td>3</td>
<td>154</td>
<td>13</td>
</tr>
<tr>
<td>Open up more income-tax offices</td>
<td>26</td>
<td>0.456</td>
<td>3</td>
<td>21</td>
<td>5</td>
<td>144</td>
<td>14</td>
</tr>
<tr>
<td>Privatise income-tax administration</td>
<td>17</td>
<td>0.298</td>
<td>17</td>
<td>7</td>
<td>4</td>
<td>142</td>
<td>15</td>
</tr>
<tr>
<td>Reduce manpower deployed in offices</td>
<td>20</td>
<td>0.351</td>
<td>12</td>
<td>12</td>
<td>2</td>
<td>101</td>
<td>16</td>
</tr>
<tr>
<td>Introduce presumptive schemes</td>
<td>21</td>
<td>0.368</td>
<td>21</td>
<td>3</td>
<td>4</td>
<td>93</td>
<td>17</td>
</tr>
</tbody>
</table>

*Rounded off to the nearest unit's place.
Table 4.39: Ranking of Reform Measures by Medium-sized Companies

<table>
<thead>
<tr>
<th>Reform Measures</th>
<th>Responding Cos.</th>
<th>Coefficient</th>
<th>Highest Rank given</th>
<th>Weight assigned</th>
<th>No. of Cos.</th>
<th>Score *</th>
<th>Priority Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduce tax rates &amp; abolish surcharge</td>
<td>54</td>
<td>0.947</td>
<td>1</td>
<td>23</td>
<td>45</td>
<td>980</td>
<td>1</td>
</tr>
<tr>
<td>Improve public relations</td>
<td>42</td>
<td>0.737</td>
<td>6</td>
<td>18</td>
<td>11</td>
<td>876</td>
<td>2</td>
</tr>
<tr>
<td>Improve amenities at Income-Tax Office</td>
<td>43</td>
<td>0.754</td>
<td>9</td>
<td>15</td>
<td>8</td>
<td>814</td>
<td>3</td>
</tr>
<tr>
<td>Computerise the operations of I.T. Dept.</td>
<td>54</td>
<td>0.947</td>
<td>2</td>
<td>22</td>
<td>16</td>
<td>667</td>
<td>4</td>
</tr>
<tr>
<td>Improve service conditions of personnel</td>
<td>36</td>
<td>0.632</td>
<td>10</td>
<td>14</td>
<td>7</td>
<td>619</td>
<td>5</td>
</tr>
<tr>
<td>Reorganize jurisdiction of I.T. authys</td>
<td>36</td>
<td>0.632</td>
<td>2</td>
<td>22</td>
<td>22</td>
<td>612</td>
<td>6</td>
</tr>
<tr>
<td>Improve training of I.T. personnel</td>
<td>39</td>
<td>0.684</td>
<td>9</td>
<td>15</td>
<td>6</td>
<td>554</td>
<td>7</td>
</tr>
<tr>
<td>Simplify procedures/forms prescribed</td>
<td>53</td>
<td>0.930</td>
<td>2</td>
<td>22</td>
<td>11</td>
<td>450</td>
<td>8</td>
</tr>
<tr>
<td>Increase exemptions and deductions</td>
<td>39</td>
<td>0.684</td>
<td>8</td>
<td>16</td>
<td>5</td>
<td>438</td>
<td>9</td>
</tr>
<tr>
<td>Reduce discretionary powers of officers</td>
<td>41</td>
<td>0.719</td>
<td>4</td>
<td>20</td>
<td>7</td>
<td>403</td>
<td>10</td>
</tr>
<tr>
<td>Reduce contact of taxpayers &amp; officers</td>
<td>31</td>
<td>0.544</td>
<td>12</td>
<td>12</td>
<td>4</td>
<td>313</td>
<td>11</td>
</tr>
<tr>
<td>Simplify income-tax law</td>
<td>53</td>
<td>0.930</td>
<td>2</td>
<td>22</td>
<td>7</td>
<td>286</td>
<td>12</td>
</tr>
<tr>
<td>Reduce manpower deployed in offices</td>
<td>29</td>
<td>0.509</td>
<td>3</td>
<td>21</td>
<td>8</td>
<td>257</td>
<td>13</td>
</tr>
<tr>
<td>Decrease tax deductions at source</td>
<td>36</td>
<td>0.632</td>
<td>3</td>
<td>21</td>
<td>6</td>
<td>239</td>
<td>14</td>
</tr>
<tr>
<td>Open up more income-tax offices</td>
<td>30</td>
<td>0.526</td>
<td>3</td>
<td>21</td>
<td>7</td>
<td>232</td>
<td>15</td>
</tr>
<tr>
<td>Introduce presumptive schemes</td>
<td>23</td>
<td>0.404</td>
<td>14</td>
<td>10</td>
<td>4</td>
<td>226</td>
<td>16</td>
</tr>
<tr>
<td>Privatise income-tax administration</td>
<td>21</td>
<td>0.368</td>
<td>9</td>
<td>15</td>
<td>2</td>
<td>99</td>
<td>17</td>
</tr>
</tbody>
</table>

*Rounded off to the nearest unit's place.
Table 4.40: Ranking of Reform Measures by Large Companies

<table>
<thead>
<tr>
<th>Reform Measures</th>
<th>Responding Cos.</th>
<th>Coefficient</th>
<th>Highest Rank given</th>
<th>Weight assigned</th>
<th>No. of Cos.</th>
<th>Score *</th>
<th>Priority Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduce tax rates &amp; abolish surcharge</td>
<td>55</td>
<td>0.982</td>
<td>1</td>
<td>23</td>
<td>43</td>
<td>971</td>
<td>1</td>
</tr>
<tr>
<td>Computerise the operations of I.T. Dept</td>
<td>51</td>
<td>0.911</td>
<td>2</td>
<td>22</td>
<td>17</td>
<td>681</td>
<td>2</td>
</tr>
<tr>
<td>Simplify procedures/forms prescribed</td>
<td>48</td>
<td>0.857</td>
<td>3</td>
<td>21</td>
<td>11</td>
<td>594</td>
<td>3</td>
</tr>
<tr>
<td>Improve public relations</td>
<td>40</td>
<td>0.714</td>
<td>6</td>
<td>18</td>
<td>7</td>
<td>540</td>
<td>4</td>
</tr>
<tr>
<td>Improve amenities at Income-Tax Office</td>
<td>35</td>
<td>0.625</td>
<td>9</td>
<td>15</td>
<td>6</td>
<td>506</td>
<td>5</td>
</tr>
<tr>
<td>Reduce discretionary powers of officers</td>
<td>37</td>
<td>0.661</td>
<td>5</td>
<td>19</td>
<td>7</td>
<td>440</td>
<td>6</td>
</tr>
<tr>
<td>Simplify income-tax law</td>
<td>48</td>
<td>0.857</td>
<td>2</td>
<td>22</td>
<td>11</td>
<td>415</td>
<td>7</td>
</tr>
<tr>
<td>Improve service conditions of personnel</td>
<td>30</td>
<td>0.536</td>
<td>12</td>
<td>12</td>
<td>5</td>
<td>386</td>
<td>8</td>
</tr>
<tr>
<td>Improve training of I.T. personnel</td>
<td>36</td>
<td>0.643</td>
<td>8</td>
<td>16</td>
<td>4</td>
<td>329</td>
<td>9</td>
</tr>
<tr>
<td>Increase exemptions and deductions</td>
<td>27</td>
<td>0.482</td>
<td>8</td>
<td>16</td>
<td>4</td>
<td>247</td>
<td>10</td>
</tr>
<tr>
<td>Reorganise jurisdiction of I.T. authys</td>
<td>33</td>
<td>0.589</td>
<td>3</td>
<td>21</td>
<td>6</td>
<td>223</td>
<td>11</td>
</tr>
<tr>
<td>Reduce contact of taxpayers &amp; officers</td>
<td>26</td>
<td>0.464</td>
<td>6</td>
<td>18</td>
<td>4</td>
<td>200</td>
<td>12</td>
</tr>
<tr>
<td>Open up more income-tax offices</td>
<td>26</td>
<td>0.464</td>
<td>7</td>
<td>17</td>
<td>3</td>
<td>166</td>
<td>13</td>
</tr>
<tr>
<td>Increase manpower deployed in offices</td>
<td>21</td>
<td>0.375</td>
<td>5</td>
<td>19</td>
<td>4</td>
<td>143</td>
<td>14</td>
</tr>
<tr>
<td>Introduce presumptive schemes</td>
<td>20</td>
<td>0.357</td>
<td>16</td>
<td>8</td>
<td>3</td>
<td>137</td>
<td>15</td>
</tr>
<tr>
<td>Privatise income-tax administration</td>
<td>22</td>
<td>0.393</td>
<td>19</td>
<td>5</td>
<td>3</td>
<td>112</td>
<td>16</td>
</tr>
<tr>
<td>Decrease tax deductions at source</td>
<td>19</td>
<td>0.339</td>
<td>22</td>
<td>2</td>
<td>4</td>
<td>60</td>
<td>17</td>
</tr>
</tbody>
</table>

- Rounded off to the nearest unit's place.
Table 4.41: Ranking of Reform Measures by All Companies

<table>
<thead>
<tr>
<th>Reform Measures</th>
<th>Responding Cos.</th>
<th>Coefficient</th>
<th>Highest Rank</th>
<th>Weight assigned</th>
<th>No. of Cos.</th>
<th>Score*</th>
<th>Priority Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td>Reduce tax rates &amp; abolish surcharge</td>
<td>163</td>
<td>0.959</td>
<td>1</td>
<td>23</td>
<td>129</td>
<td>2845</td>
<td>1</td>
</tr>
<tr>
<td>Computerise the operations of I.T. Dept.</td>
<td>150</td>
<td>0.882</td>
<td>2</td>
<td>22</td>
<td>49</td>
<td>1902</td>
<td>2</td>
</tr>
<tr>
<td>Simplify procedures/forms prescribed</td>
<td>154</td>
<td>0.906</td>
<td>3</td>
<td>21</td>
<td>32</td>
<td>1827</td>
<td>3</td>
</tr>
<tr>
<td>Improve training of I.T. personnel</td>
<td>111</td>
<td>0.653</td>
<td>8</td>
<td>16</td>
<td>19</td>
<td>1588</td>
<td>4</td>
</tr>
<tr>
<td>Improve amenities at Income-Tax Office</td>
<td>117</td>
<td>0.688</td>
<td>9</td>
<td>15</td>
<td>17</td>
<td>1579</td>
<td>5</td>
</tr>
<tr>
<td>Improve public relations</td>
<td>125</td>
<td>0.735</td>
<td>6</td>
<td>18</td>
<td>15</td>
<td>1191</td>
<td>6</td>
</tr>
<tr>
<td>Decrease tax deductions at source</td>
<td>101</td>
<td>0.594</td>
<td>11</td>
<td>13</td>
<td>12</td>
<td>1091</td>
<td>7</td>
</tr>
<tr>
<td>Reduce discretionary powers of officers</td>
<td>112</td>
<td>0.659</td>
<td>4</td>
<td>20</td>
<td>16</td>
<td>844</td>
<td>8</td>
</tr>
<tr>
<td>Increase exemptions and deductions</td>
<td>100</td>
<td>0.589</td>
<td>7</td>
<td>17</td>
<td>12</td>
<td>841</td>
<td>9</td>
</tr>
<tr>
<td>Reduce contact of taxpayers &amp; officers</td>
<td>78</td>
<td>0.459</td>
<td>12</td>
<td>12</td>
<td>11</td>
<td>727</td>
<td>10</td>
</tr>
<tr>
<td>Improve service conditions of personnel</td>
<td>95</td>
<td>0.559</td>
<td>8</td>
<td>16</td>
<td>10</td>
<td>716</td>
<td>11</td>
</tr>
<tr>
<td>Reorganize jurisdiction of I.T. authys</td>
<td>95</td>
<td>0.559</td>
<td>2</td>
<td>22</td>
<td>26</td>
<td>639</td>
<td>12</td>
</tr>
<tr>
<td>Open up more income-tax offices</td>
<td>82</td>
<td>0.482</td>
<td>3</td>
<td>21</td>
<td>19</td>
<td>577</td>
<td>13</td>
</tr>
<tr>
<td>Reduce manpower deployed in offices</td>
<td>85</td>
<td>0.500</td>
<td>3</td>
<td>21</td>
<td>17</td>
<td>536</td>
<td>14</td>
</tr>
<tr>
<td>Simplify income-tax law</td>
<td>150</td>
<td>0.882</td>
<td>1</td>
<td>23</td>
<td>26</td>
<td>526</td>
<td>15</td>
</tr>
<tr>
<td>Privatise income-tax administration</td>
<td>60</td>
<td>0.353</td>
<td>19</td>
<td>5</td>
<td>8</td>
<td>268</td>
<td>16</td>
</tr>
<tr>
<td>Introduce presumptive schemes</td>
<td>64</td>
<td>0.376</td>
<td>21</td>
<td>3</td>
<td>8</td>
<td>190</td>
<td>17</td>
</tr>
</tbody>
</table>

*Rounded off to the nearest unit’s place.
Reform measures suggested by all companies are discussed below in the order of their rankings.

4.1 Reduction of Tax Rate

The priority rankings shown in Table-4.41 indicate that sample companies have assigned the first rank to the reduction of tax rates and abolition of surcharge on corporation income-tax. Although the statutory rates of corporation income-tax have been reduced from year to year and even as effective tax rates have declined in the post-reforms period (as shown in Table-4.33), sample companies still seem to be aggrieved by the prevailing rates of corporation income-tax. As far as the abolition of surcharge is concerned, the Government has already taken this step with effect from assessment year 1997-98, thereby eliminating one of the foremost grievances of companies.

There does not seem to be any further scope for reducing the rates of corporation income-tax since the effective tax rates for the small, medium-sized, large and all companies are already much below the statutory rates (as shown in Table-4.33). The statutory rates are themselves in tune with the rates prevailing in most other countries (as shown in Appendix I).

4.2 Computerisation of Tax Administration

The next measure of reform in the order of priority is the computerisation of the income-tax department. This reflects the extent of dissatisfaction of companies with the existing administrative procedures involving manual operations and entailing huge delays and other problems. The tax administration did, in fact, take up an ambitious programme at the beginning of the reforms period for installing super computers in three major metropolitan cities of the country and then linking up all income-tax offices through a computer network.
However, this programme does not appear to have picked up momentum and most of the administrative functions are still being handled across the country through traditional manual methods. In some places, selective computerisation has been done for handling specific tasks such as tax deduction at source, preliminary adjustments of income-tax returns, collection of taxes, allotment of identification numbers to assessees, etc., but on the whole, computerisation is yet to gain its place of importance on the agenda of tax reforms.

4.3 Simplification of Procedures/Forms Prescribed

Simplification of administrative procedures and of various forms required to be filled-in by companies has been cited as the third priority area by all companies. Three of the problem-areas, namely, availability of prescribed forms, remittance of income-tax through bank challans and preparation and filing of income-tax returns, ranked 13, 20 and 24 respectively in Table-4.28, are related directly or indirectly with this area of reforms.

4.4 Training of Income-Tax Personnel

Improving the training of income-tax personnel is ranked 4th by the sample companies. Since a well-trained and competent body of tax administrators could contribute to a great extent in making tax enforcement less painful for the department and tax compliance easier for the companies, the high priority ranking assigned to this area by sample companies appears to be quite justified. As Jenkins notes, “the availability and retention of trained human resources is by far the most important factor in determining the efficiency of the tax administration. We need to recognize that the quality and honesty of a tax administration official is largely determined by the environment within which the human element is placed”24.

There have been gradual and positive changes in the tax administration with regard to the training of the top-level officers, but substantial improvement is called for in the training input given to the lower and middle-level officials. The objective of imparting training should not only to update the administrators' knowledge and skills, but also to bring about a positive and lasting attitudinal change towards tax reforms and the need for a better understanding of taxpayers' perspectives.

4.5 Improvement of Amenities/Facilities at Income-Tax Offices

The next item on the priority chart is the need to improve amenities at income-tax offices. The Chelliah Committee also observed that the amenities available at income-tax department, both for the tax officials and for the taxpayers, are woefully inadequate\(^{25}\). The tax reforms programme currently underway does not include any specific objective to improve the amenities available at income-tax offices, nor has any separate budgetary allocation been made for this purpose. Since this item has been prioritised among the top five ranks by sample companies, this aspect should deserve better attention by tax administration. The term 'amenities' is generally understood to include provision of reasonably well-furnished visitors' halls, well-stocked libraries with the latest periodicals, journals and newspapers for officials as well as public use, availability of telephones, photocopying facility, etc., provision of drinking water, canteens, toilets, etc.

4.6 Improvement of Public Relations

Sample companies have assigned the sixth rank to improving public relations by the tax administration. It is very important that the tax administration creates an atmosphere of trust among taxpayers and promotes awareness about the various tax schemes and changes in law and administration introduced from time to time.

through a professional public relations effort. Appointment of well-trained and full-time public relations professionals and occasional hiring of the services of private advertising and media experts for the purpose are among the foremost things the tax administration must do. The latter course of action has of late been tried by the tax administration on a few occasions and the effort has been worthwhile. In fact, there is a lot of misconception and misapprehension in the minds of companies about the tax department which should be removed and the image of the department should be improved through major public relations exercises.

This is not to mean that the tax administration should go about launching a propaganda campaign without the necessary attitudinal and functional changes in its way of functioning, but it is essential that tax administration make every effort to be seen as friendly and cooperative towards honest taxpayers and firm and unsparing towards tax defaulters and evaders through improvement in its public relations. Suggestions received from sample companies in this regard include the launching of “Meet The Tax Payers/Tax Consultants” programmes at periodic intervals, initiation of awards to prompt taxpayers and companies making prompt compliance with the TDS provisions, wider publication and education of taxpayers on important tax provisions and latest changes therein and induction of professionals as public relations officers or imparting of specialized training to personnel of tax administration specially selected for public relations work.

4.7 Tax Deduction at Source (TDS)

Sample companies have indicated that the number of items on which tax is required to be deducted at source must be decreased and this measure is assigned the seventh rank by them. However, the situation in the countries is such that cuts in tax rates do not yield corresponding increases in tax revenue, but leads to further decline in the average effective tax rates. The level of tax compliance by companies is not high. There is substantial litigation in the form of appeals and tax evasion is
widespread. Under these circumstances, such a measure cannot obviously be contemplated by any tax administration.

Tax deduction at source does imply an additional opportunity cost for companies in the form of transfer of a function of the administration on to the taxpayers, but then, the advantages of such a system are there for all to see. The obligation of companies to deduct tax at source on various types of payments made by them for different purposes specified in the income-tax Act and the responsibility to remit the tax so deducted at source into the Government's account within a specified time limit and furnish a statement of taxes so deducted and remitted, all induce a sense of responsibility for companies and diluting such responsibilities would tantamount to deliberately bringing down tax compliance. Thus, this move is quite ill-advised and not in public interest. Sample companies have also made some additional suggestions in the matter of the TDS which are as follows:

(i) TDS requirements are difficult to comply with and involves voluminous work for companies.

(ii) Further simplification of TDS rules is necessary. The limit of TDS must in some cases be enhanced to Rs. 50,000.

(iii) TDS provisions should be introduced in stock market operations. Interest, penalty and prosecution provisions under TDS should be relaxed for companies.

(iv) TDS requirements increase the cost of compliance and involve additional computer-time and manhours, stationery and training and other related personnel costs.

(v) Scope of TDS should be reduced and should apply only when actual payments take place. Companies should be provided with tax incentives for TDS work.
4.8 Reducing Discretionary Powers of Income-Tax Authorities

Reducing the discretionary powers vested with income-tax authorities is ranked eighth by sample companies. The Chelliah Committee also favoured the reduction of discretionary powers of income-tax authorities in the matter of levying penalties\textsuperscript{26}. While there is merit in the arguments advanced for reducing income-tax authorities’ discretionary powers, it must be recognized that exercising discretion while dealing with different types of cases and while acting under different circumstances is an inherent and even desirable in the administration of direct taxes. However, discretion must be exercised in a transparent and \textit{bona-fide} manner.

This is so because no two tax payers or no two circumstances of a single taxpayer can be treated alike and administration has to take into account the background and the context in which it views different issues connected with income-tax proceedings, be they assessment, interest, penalty, prosecution, survey or search and seizure proceedings. To the extent that vesting of discretion in administration is perceived to encourage corruption or negative discrimination, discretion could be reduced through computerisation of routine and repetitive operations such as issue of refund orders or tax clearance certificates or preliminary processing of returns, but judgement and discretion in individual cases has to be exercised in each case. The solution perhaps lies in making administrative authorities more accountable and transparent in their functioning and making tax evasion less and less cost-effective.

4.9 Increasing Tax Exemptions and Deductions

Effective corporate tax rates being much below the statutory rates (which are at reasonably low levels in the post-reforms period), there is wide divergence between the statutory and effective tax rates (Table-4.33). One major reason for this

divergence is the existence of a vast array of tax exemptions and deductions which serve no real socio-economic objective other than resulting in a drain on the nation’s tax revenue. In such a scenario, the prioritisation by companies for increasing tax exemptions and deductions as the ninth most important reform measure eludes all reason and does not therefore merit any attention.

14.10 Reducing Contact between Taxpayers and Tax Personnel

Sample companies have indicated that the tenth most important reform measure to be undertaken by tax administration should be to reduce the chances of contact between individual taxpayers and the tax personnel. An overall improvement in the tax regime in terms of simplification of administrative procedures, computerisation of administration, tax-payer-friendly approaches, better training of officials and reducing the opportunity cost and incentive for tax evasion would go a longer way in combating unhealthy practices in tax administration rather than reducing per se the contact between the taxpayers and tax administration.

4.11 Improving Service Conditions of Personnel

It is in the fitness of things that sample companies have assigned a high rank to the issue of improving the service conditions of income-tax personnel. The Chelliah Committee advocated radical improvements in the service conditions of income-tax personnel including pay and allowances, office and residential accommodation, communication and transport facilities, etc. and treatment of issues relating to the service conditions of income-tax personnel separately from those of other Central Government employees27, hardly any note appears to have been taken of such suggestions and the service conditions of the tax personnel continues to be pathetic.

4.12 Reorganising Jurisdiction of Income-Tax Authorities

The issue of jurisdiction of income-tax authorities, ranked 12th by sample companies, merits more serious attention than it has ever received. At present, the tax administration generally determines the jurisdiction of tax officers on the basis of territorial areas (territorial jurisdiction) and returned incomes (pecuniary jurisdiction), except in special cases requiring special investigations. Accordingly, assessing or appellate authorities may be assigned jurisdiction over cases or classes of cases depending upon the location of the taxpaying companies or other types of assessees or depending upon the incomes returned by such assessees.

As for pecuniary jurisdiction, cases wherein the returned incomes are below a particular level (Rs. 2 lakh at present) are ordinarily assigned to Income-Tax Officers, cases wherein returned incomes are between a range (Rs. 2 lakh to Rs. 20 lakh at present) are assigned to Assistant Commissioners of Income-Tax and all other cases are assigned to Deputy Commissioners of Income-Tax. The pecuniary basis for assigning jurisdiction results in frequent transfer of cases from officer to another depending upon the fluctuations in the returned incomes of assessees. Frequent transfer of jurisdiction over cases on the basis of administrative convenience or reorganisation of income-tax ranges also result in inconvenience to tax administration and taxpayers alike.

The suggestion by the Chelliah Committee to entrust assessment tasks to a group of officers rather than to individual officers\(^\text{28}\) has great merit in this context, but the same has not been tried, except in limited cases. The choice bestowed upon companies to file their returns of income at any place, rather than from their principal places of operation or from the places where their registered or corporate offices are located, should also be reviewed.

4.13 Opening up more Income-Tax Offices

Sample companies have felt a need for opening up more income-tax offices in the country and have assigned the thirteenth rank to this measure. A look at Table-4.28 shows that this suggestion has arisen out of the problems faced by companies with regard to the distance to be travelled by their representatives to meet income-tax authorities and the frequency of visiting income-tax offices, both of which are ranked very high (7th and 8th respectively) in the problem-ranking chart.

When the problems of small, medium-sized and large companies are looked into separately, it is found that the distance to be traveled to meet income-tax authorities constitutes a problem ranked within the first ten problem-areas. Frequency of visiting income-tax offices constitutes a problem ranked within the first ten problem-areas in the case of the medium-sized and large companies. Such being the case, the suggestion to open up more income-tax offices appears to be quite valid and must be taken in all seriousness.

4.14 Reducing Manpower Deployed in Income-Tax Offices

The suggestion by sample companies to reduce manpower deployed in income-tax offices follows from the earlier suggestion to computerise the operations of the income-tax department. While it is true that computerisation might lead to faster turnout of more work and a fall in manpower requirement, the nature of work in the tax department that requires exercise of discretion and making of conscious decisions that may require officers to discriminate between individual cases depending upon their circumstances and context, mere reduction of manpower may not produce all desired results. As a matter of fact, the work in the income-tax department is heavily officer-oriented and there is a sever shortage of lower-level officials, thereby resulting in severe overburdening of officers. Redeployment of existing staff and encouraging specialisation among existing and newly recruited staff
could perhaps be a better answer to the problems faced by tax administration rather than an across the board reduction in manpower deployment, which may prove to be counter-productive. However, this is not to be misunderstood to mean favouring of over-staffing since the problems created by such a course of action (such as greater administrative costs, increased trade unionism, duplication of work, to mention only a few) are too obvious to be overlooked.

4.15 Simplification of Income-Tax Law/Rules

It is common knowledge that the Indian income-tax laws and rules are highly complicated rendering both tax compliance and tax administration quite an uphill task. As Jenkins puts it, “simplicity is necessary because continuous changes and complexity in tax law have a negative effect on compliance” 29. While the large number of exemptions and deductions offered by the income-tax law is partly responsible for this problem, the ambiguous and convoluted drafting of tax provisions is another major reason for the complexity of tax laws. This gives rise to increased litigations and litigations in turn introduce greater complexity into the tax laws/rules. This vicious circle may not be unconquerable and persistent and committed efforts in that direction is a pre-condition for simplifying the laws/rules.

The Experts Group set by the Ministry of Finance has, on 14.2.1997, submitted a working draft of the new Income-Tax Bill, 1997 30. This Bill proposes to replace the existing Income-Tax Act of 1961 with a new legislation which envisages the introduction of as many as 72 substantial changes and 114 minor changes to the existing income-tax law, in addition to the deletion of as many as 152 provisions contained in the present statute. The avowed objective of establishing a new direct taxes code, incorporating the income-tax, wealth-tax and gift-tax laws in a single

comprehensive legislation, however, yet remains unattained. Obviously, greater commitment to simplification of tax laws/rules and earnest efforts to translate the objective into reality are needed.

4.16 Introduction of Presumptive Taxation Schemes for Companies

Presumptive taxation is a method advocated for assured collection of taxes from the hard-to-tax groups of taxpayers where insistence on maintenance of books of account and on their audit would not yield desired results. A detailed discussion of this topic is made in Chapter II. Sample companies have shown little enthusiasm for such schemes, as evident from the fact that they have assigned the lowest rank (17th) to this measure.

4.17 Other Aspects of Tax Administration

The questionnaires sent to companies listing problem-areas in tax administration and measures needed for reforming the same could not have been quite exhaustive and there could be many other problems and probable solutions to them which are not dealt with in the questionnaires or in the foregoing analysis. Some such issues include issue of tax clearance certificates, compulsory acquisition of immovable properties, attachment of movable and immovable properties, impoundment and seizure of books of account and other assets, attachment of bank accounts subsequent to search and seizure operations, clamping of prohibitory orders, reopening of income-tax assessments, tax recovery proceedings, settlement of income-tax cases by the Settlement Commission, etc.

One reason for the non-inclusion of such issues is that they do not generally affect all companies at all times, but only when specific cause of action arises or only under certain circumstances. Moreover, any study has its limitations and it would not be possible for a single study to focus on all aspects of administration since it may result in loss of focus or unproductive dissipation of effort.
However, to overcome this limitation, sample companies were encouraged to freely express problem-areas and reform measures not mentioned in the questionnaire, but which happened to be important for them, and to rank them appropriately. Some sample companies have, indeed, done so, and the important issues raised by them are listed (without ranking) in Table-4.42

Table-4.42 : Additional Reform Measures Suggested by Companies

<table>
<thead>
<tr>
<th>SI. No</th>
<th>Reform measures suggested</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Make C.B.D.T.'s Departmental Instructions public.</td>
</tr>
<tr>
<td>2</td>
<td>Speed up appellate proceedings.</td>
</tr>
<tr>
<td>3</td>
<td>Amend Laws/Rules only once in three or more years.</td>
</tr>
<tr>
<td>4</td>
<td>Create nationwide industry/business data base.</td>
</tr>
<tr>
<td>5</td>
<td>Review assessment orders by a panel before they are passed.</td>
</tr>
<tr>
<td>6</td>
<td>Eliminate differences in accounting requirements of I.T. and Company laws.</td>
</tr>
<tr>
<td>7</td>
<td>Standardise the interpretation of income-tax provisions.</td>
</tr>
<tr>
<td>8</td>
<td>Improve record-keeping methods in income-tax offices.</td>
</tr>
<tr>
<td>9</td>
<td>Eliminate delays in granting approvals by higher authorities for issue of refunds</td>
</tr>
<tr>
<td>10</td>
<td>Improve cleanliness at income-tax offices.</td>
</tr>
<tr>
<td>11</td>
<td>Establish separate tax courts for reference of points of law.</td>
</tr>
<tr>
<td>12</td>
<td>Relax requirement of I.T No Objection Certificate for raising loans.</td>
</tr>
<tr>
<td>13</td>
<td>Waive requirement of I.T No Objection Certificate for remittance of fees abroad</td>
</tr>
<tr>
<td>14</td>
<td>Give service orientation to income-tax personnel.</td>
</tr>
<tr>
<td>15</td>
<td>Motivate employees towards national welfare.</td>
</tr>
<tr>
<td>16</td>
<td>Reduce workload on assessing officers to improve quality of assessments.</td>
</tr>
<tr>
<td>17</td>
<td>Improve discipline, morale and attitude of income-tax personnel.</td>
</tr>
<tr>
<td>18</td>
<td>Increase efficiency at lower levels of tax administration.</td>
</tr>
<tr>
<td>19</td>
<td>Appoint professionals at higher levels of tax administration.</td>
</tr>
<tr>
<td>20</td>
<td>Make Income-Tax officials more accountable and responsible.</td>
</tr>
<tr>
<td>21</td>
<td>Bring agricultural incomes into tax net.</td>
</tr>
<tr>
<td>22</td>
<td>Enhance income-tax for companies producing luxury and intoxicating goods.</td>
</tr>
<tr>
<td>23</td>
<td>Relate exemptions/deductions to companies' turnover.</td>
</tr>
<tr>
<td>24</td>
<td>Abolish preliminary adjustment of income-tax returns filed by companies.</td>
</tr>
<tr>
<td>25</td>
<td>Form a separate judicial Board instead of C.B.D.T. to interpret tax laws.</td>
</tr>
<tr>
<td>26</td>
<td>Abolish tax audit under Section 44AB of Income-Tax Act.</td>
</tr>
</tbody>
</table>

Suggestions listed from SI. No. 1 to 20 in the Table do merit serious consideration by tax administration. Suggestions mentioned at SI. Nos. 21 and 22 involve controversial issues. Bringing agricultural incomes into tax net has been suggested by some taxation enquiry committees in the past, including the Chelliah
Committee, but political will is required for taking such a decision. As regards the enhancement of income-tax on companies producing luxury and intoxicating goods, such a discrimination would violate the principle of horizontal equity and the intention behind such a suggestion is taken care of by indirect taxes such as excise and sales tax. Items listed from Sl. Nos. 23, 25 and 26 do not seem to have any rationale and need not be contemplated.

5. Overall Impact of Tax Reforms on Companies’ Problems

To evaluate the overall impact of tax reforms has had on the various problems faced by companies as discussed in the foregoing paragraphs, the responses of sample companies with respect to the degree of change with regard to each problem in the three broad categories of ‘No Change’, ‘Positive Change’ and ‘Negative Change’ have been compared in Table-4.43.

<table>
<thead>
<tr>
<th>Category of Companies</th>
<th>No Change (%)</th>
<th>Positive Change (%)</th>
<th>Negative Change (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Range</td>
<td>Mean</td>
<td>Range</td>
</tr>
<tr>
<td>Small Companies</td>
<td>63.20 - 96.50</td>
<td>79.85</td>
<td>1.80 - 29.80</td>
</tr>
<tr>
<td>Medium-sized Companies</td>
<td>61.40 - 96.50</td>
<td>78.95</td>
<td>3.50 - 33.30</td>
</tr>
<tr>
<td>Large Companies</td>
<td>62.50 - 96.40</td>
<td>79.45</td>
<td>1.80 - 23.20</td>
</tr>
<tr>
<td>All Companies</td>
<td>65.30 - 95.80</td>
<td>80.55</td>
<td>1.80 - 22.30</td>
</tr>
</tbody>
</table>

On the whole, the average proportion of companies experiencing no change works out to nearly 80 per cent for the small, medium-sized and large companies and for all companies taken together. However, it is not as if the reforms programme has had no effect at all. Data presented in Annexure V to this Chapter show that companies have also experienced a ‘positive change’ or improvement with respect to the problems faced by them, as a result of the reforms programme. The
average proportion of companies experiencing a positive change works out to about 16 per cent for small, 18 per cent for medium-sized, 13 per cent for large and 12 per cent for all companies.

An undesirable consequence of the reforms programme has been that sample companies have reported a 'Negative Change' ranging from about 2 per cent to nearly 16 per cent (small and medium-sized companies), from about 2 per cent to more than 14 per cent (large companies) and from about 2 per cent to more than 15 per cent (all companies). The average proportion of companies experiencing a negative change works out to nearly 9 per cent for small and medium-sized, 8 per cent for large and about 9 per cent for all companies.

The above analysis confirms the second hypothesis of the study, namely, that the tax reforms initiated in the country since 1992-93 as part of the process of economic liberalization have not significantly improved tax administration.
### Annexure I: Computation of Problem Rankings for Small Companies

<table>
<thead>
<tr>
<th>Sl. No</th>
<th>Nature of Problem faced</th>
<th>Combinations of Problem-Levels Before and After Reforms</th>
<th>Score</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>D - A</td>
<td>D - B</td>
<td>D - C</td>
</tr>
<tr>
<td>1</td>
<td>Preparation and filing of returns</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>-7</td>
<td>-8</td>
<td>-9</td>
</tr>
<tr>
<td>2</td>
<td>Maintenance of books of account</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>-7</td>
<td>-8</td>
<td>-9</td>
</tr>
<tr>
<td>3</td>
<td>Compulsory audit of books of a/c</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4</td>
<td>Preliminary adjustment of returns</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5</td>
<td>Receipt of refund orders</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Selection of cases for scrutiny</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Production of books of account</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>Representation of companies' cases</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>-73</td>
<td>-74</td>
<td>-75</td>
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<td>9</td>
<td>Remittance of tax through challans</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10</td>
<td>Availability of circulars, etc.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>-95</td>
<td>-96</td>
<td>-97</td>
</tr>
<tr>
<td>11</td>
<td>Giving effect to appellate orders</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>Availability of prescribed forms</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>Adjustment/Fixation of hearings</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>14</td>
<td>Recording of statements</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>-139</td>
<td>-140</td>
<td>-141</td>
</tr>
<tr>
<td>15</td>
<td>Time given to furnish information</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>16</td>
<td>Interest/penalty/prosecution</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>17</td>
<td>Jurisdiction of I.T. authorities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>18</td>
<td>Amenities/Access to I.T. Offices</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>19</td>
<td>Accessibility of I.T. authorities</td>
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<tr>
<td>20</td>
<td>Distance to be travelled</td>
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<tr>
<td>21</td>
<td>Frequency of visiting I.T. offices</td>
<td></td>
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<td></td>
</tr>
<tr>
<td>22</td>
<td>Survey/Entry &amp; Inspection</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>23</td>
<td>Cost of complying with laws/rules</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td>-238</td>
<td>-239</td>
<td>-240</td>
</tr>
<tr>
<td>24</td>
<td>Complexity of I.T. laws/rules</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>-249</td>
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Annexure II: Computation of Problem Rankings for Medium-sized Companies

<table>
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<tr>
<th>Sl. No</th>
<th>Nature of Problem faced</th>
<th>Combinations of Problem-Levels Before and After Reforms</th>
<th>Score</th>
<th>Rank</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>D - A</td>
<td>D - B</td>
<td>D - C</td>
</tr>
<tr>
<td>1</td>
<td>Preparation and filing of returns</td>
<td>-9</td>
<td>-8</td>
<td>-7</td>
</tr>
<tr>
<td>2</td>
<td>Maintenance of books of account</td>
<td>- -</td>
<td>- -</td>
<td>- -</td>
</tr>
<tr>
<td>3</td>
<td>Compulsory audit of books of a/c</td>
<td>- -</td>
<td>- -</td>
<td>- -</td>
</tr>
<tr>
<td>4</td>
<td>Preliminary adjustment of returns</td>
<td>-18</td>
<td>-8</td>
<td>- -</td>
</tr>
<tr>
<td>5</td>
<td>Receipt of refund orders</td>
<td>- -</td>
<td>- -</td>
<td>-6</td>
</tr>
<tr>
<td>6</td>
<td>Selection of cases for scrutiny</td>
<td>- -</td>
<td>- -</td>
<td>-13</td>
</tr>
<tr>
<td>7</td>
<td>Production of books of account</td>
<td>- -</td>
<td>- -</td>
<td>-7</td>
</tr>
<tr>
<td>8</td>
<td>Representation of companies' cases</td>
<td>- -</td>
<td>- -</td>
<td>- -</td>
</tr>
<tr>
<td>9</td>
<td>Remittance of tax through challans</td>
<td>- -</td>
<td>- -</td>
<td>- -</td>
</tr>
<tr>
<td>10</td>
<td>Availability of Circulars, etc.</td>
<td>- -</td>
<td>- -</td>
<td>- -</td>
</tr>
<tr>
<td>11</td>
<td>Giving effect to appellate orders</td>
<td>- -</td>
<td>- -</td>
<td>- -</td>
</tr>
<tr>
<td>12</td>
<td>Availability of prescribed forms</td>
<td>- -</td>
<td>- -</td>
<td>-7</td>
</tr>
<tr>
<td>13</td>
<td>Adjournment/Fixation of hearings</td>
<td>- -</td>
<td>- -</td>
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<tr>
<td>14</td>
<td>Recording of statements</td>
<td>- -</td>
<td>- -</td>
<td>- -</td>
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<tr>
<td>15</td>
<td>Time given to furnish information</td>
<td>- -</td>
<td>- -</td>
<td>- -</td>
</tr>
<tr>
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### Annexure III: Computation of Problem Rankings for Large Companies

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Annexure IV : Computation of Problem Rankings for All Companies

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| 2       | Maintenance of books of account | -8  | -8  | -14 | - -  | -6  | -2  | -2  | -2  | -2  | -2  | -2  | -2  | -2  | -2  | -2  | -2  | -2  | 2
| 3       | Compulsory audit of books of a/c | -18 | - -  | - -  | - -  | -6  | -2  | -3  | -3  | -3  | -3  | -3  | -3  | -3  | -3  | -3  | -3  | -3  | 3
| 4       | Preliminary adjustment of returns | -18 | -18 | -25 | -24 | -25 | -18 | - -  | -22 | -14 | -44  | 0   | + -  | + -  | + -  | + -  | + -  | + -  | + -  | 4
| 5       | Receipt of refund orders | - -  | -24 | - -  | -20 | - -  | -9  | - -  | -2  | -8  | -48  | 0   | +16  | +24  | +15  | - -  | - -  | + -  | + -  | 5
| 6       | Selection of cases for scrutiny | - -  | - -  | -28 | -10 | - -  | 6   | -26 | -33 | 5   | 0   | 7   | +12  | +14  | +6   | - -  | - -  | + -  | + -  | 6
| 7       | Production of books of account | - -  | - -  | - -  | -28 | -10 | - -  | 6   | -26 | -33 | 5   | 0   | 7   | +12  | +14  | +6   | - -  | - -  | + -  | + -  | 7
| 8       | Representation of companies' cases | - -  | -8  | -14 | -5  | - -  | -20 | - -  | -22 | -3  | -3   | 0   | -12  | -14  | -6   | - -  | - -  | + -  | + -  | 8
| 9       | Remittance of tax through challans | - -  | -16 | -7  | -10 | - -  | -6  | -22 | 0   | -6  | -6   | 0   | + -  | + -  | + -  | - -  | - -  | - -  | + -  | 9
| 10      | Availability of Circulars, etc. | - -  | - -  | - -  | - -  | -4  | -33 | -62 | -44 | 0   | + -  | + -  | + -  | + -  | + -  | + -  | + -  | + -  | - -  | 10
| 11      | Giving effect to appellate orders | - -  | -8  | -7  | - -  | -4  | -30 | -54 | -55 | 0   | -5  | + -  | + -  | + -  | + -  | + -  | + -  | + -  | - -  | 11
| 12      | Availability of prescribed forms | - -  | -8  | -7  | - -  | -3  | -28 | -42 | 0   | -6  | + -  | + -  | + -  | + -  | + -  | + -  | + -  | + -  | - -  | 12
| 13      | Adjudgement-Fixation of hearings | - -  | -8  | -24 | -5  | - -  | -9  | -10 | -51 | 0   | -9  | -10 | -22  | -12  | - -  | - -  | - -  | - -  | - -  | 13
| 14      | Recording of statements | - -  | -24 | -6  | -15 | -4  | -6  | -14 | -35 | 0   | -4  | + -  | + -  | + -  | + -  | + -  | + -  | + -  | + -  | 14
| 15      | Time given to furnish information | - -  | -16 | -14 | -5  | -6  | -6  | -64 | 0   | -8  | + -  | + -  | + -  | + -  | + -  | + -  | + -  | + -  | + -  | 15
| 16      | Interest/penalty/prosecution | - -  | -8  | -28 | -18 | -35 | -12 | -14 | -53 | 0   | -7  | -20 | -3   | -12 | -5   | - -  | - -  | - -  | - -  | 16
| 17      | Jurisdiction of I.T. authorities | - -  | -24 | - -  | -10 | -3  | -12 | -41 | 0   | -4  | -2  | -12  | - -  | - -  | - -  | - -  | - -  | - -  | - -  | 17
| 18      | Amenities/Facilities at I.T. Offices | - -  | - -  | -7  | -6  | -5  | -4  | -45 | -42 | -70 | 0   | -7  | -12  | -8   | - -  | - -  | - -  | - -  | - -  | 18
| 19      | Accessibility of I.T. authorities | - -  | - -  | -7  | - -  | -10 | -8  | -3  | -16 | -59 | 0   | -10 | -26  | -8   | - -  | - -  | - -  | - -  | - -  | 19
| 20      | Distance to be travelled | - -  | - -  | - -  | -3  | -12 | -18 | -58 | 0   | -1  | -4  | -8   | -2   | - -  | - -  | - -  | - -  | - -  | - -  | 20
| 21      | Frequency of visiting I.T. offices | - -  | - -  | - -  | - -  | - -  | -20 | -65 | 0   | -7  | -2  | -9  | -4  | -5   | - -  | - -  | - -  | - -  | - -  | 21
| 22      | Survey/Search & Seizure | - -  | -8  | - -  | -15 | -12 | -12 | -27 | 0   | -6  | -2  | -3  | -12  | -6   | - -  | - -  | - -  | - -  | -22
| 23      | Cost of complying with laws/rules | -18 | - -  | -18 | -10 | -8  | -15 | -22 | -72 | 0   | -3  | -6  | -3   | - -  | - -  | - -  | - -  | - -  | - -  | 23
| 24      | Complexity of I.T. laws/rules | -27 | - -  | - -  | -8  | -39 | -70 | -43 | 0   | -8  | -46 | 9   | -24  | -5   | - -  | - -  | - -  | - -  | - -  | 24
### Annexure V: Effect of Reforms on Problems faced by Companies

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* S = Small Companies; M = Medium-sized Companies; L = Large Companies; A = All Companies