REFORM OF STATISTICAL INFORMATION SYSTEM IN THE INCOME TAX DEPARTMENT

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I. Introduction and Focus of the Study

Tax statistics, especially those relating to income and wealth taxes, serve a wide variety of purposes and constitute an important element of the data base of a country. Evaluation of tax policy and appraisal of alternative policy measures cannot proceed without reliable statistical information regarding the total number of tax-payers, the amount of income/wealth assessed along with their distribution, the amount of tax charged, deductions and concessions etc. actually availed of by tax payers and similar items in sufficient detail. Statistics of income and wealth tax assessments are also of invaluable help in deriving insights into important facets of the economy such as the degree of inequality in the distribution of income and wealth and their trend over time, the efficacy of tax measures to promote desired objectives, their cost to the community, the size of the parallel economy and so on. Income Tax Statistics also constitute one of the date sources for national income accounting (CSO, 1980).

Despite their acknowledged role in research and policy formulation statistics on income and wealth taxes in India are deficient in several important respects. The major deficiencies are, first, their coverage is poor and, what is worse, they cannot be regarded even as a reliable representative of the taxpaying population except for limited purposes. Secondly, they do not provide all the information required for research or policy purposes e.g. for making a judgment about the efficacy of the various measures taken through the tax instrument to promote social and economic objectives. The disaggregation provided in the published date is inadequate and not very helpful for analytical purposes. There is also a large time-lag - about two years - in their compilation which detracts from their utility for policy purposes. Attempts to estimate the probable effects of alternative measures or forecast revenues with some degree of confidence as also investigations into the size and sources of the parallel economy are seriously handicapped by the lack of reliable and adequate data on assessed income and wealth of taxpayers.

The weaknesses of income tax statistics have come in for adverse notice from researchers as well as policy making bodies from time to time (Data Improvement Committee, 1969, Direct Taxes Enquiry Committee, 1971, Gupta, A and Aggarwal P.K., 1982). Acknowledging the need for developing a more efficient system of compiling statistics relating to direct taxes, the Ministry of Finance set up a committee of experts in 1973 headed by the then Director of the Central Statistical Organisation to examine the prevailing information system for direct taxes and suggest measures "so as to reduce the time lag in their compilation and give more detailed and meaningful information". The Committee made a comprehensive study of the existing system of data compilation in the Income Tax Department, identified the source of their weaknesses and suggested wide ranging measures for improvement (Committee on Direct Taxes Statistics or CDTS for short, 1976) Several of their recommendations were accepted and have since been put into effect. The major deficiencies of the direct tax statistics however persist. For instance, the coverage of the All India Income Tax Statistics (AIITS), the principal source income tax statistics in the country, continues to be poor and haphazard and the degree of under-coverage as evidenced by the proportion of assessments reported in the AIITS to the total number of assessments made in a year seems to be on the increase as may be seen from Table 1. Similarly, the time-lag in the publication of the AIITS continues. There was some improvement after 1975-76 but again the time-lag continues to range between one and a half to two years (Table 2).

TABLE 1

Coverage of Assessments in the All India Income Tax Statistics 1960-61 to 1980-81

Year	Number of assessments completed (thousand) (1)	Number of assessments covered in AIITS (thousand) (2)	Coverage (2)/(1) (per cent) (3)
1960-61	1274	1025	80.45
1961-62	1394	1167	83.71
1962-63	1397	1190	85.18
1963-64	1586	1258	79.31
1964-65	1934	1469	75.95
1965-66	2389	1709	71.54
1966-67	2418	1783	73.74
1968-69	3421	1983	57.97
1969-70	3559	2025	56.90
1971-72	3844	2203	57.31
1972-73	3598	2245	62.40
1974-75	3841	2445	63.66
1975-76	4008	2514	62.72
1976-77	3949	2556	64.73
1977-78	4044	2651	65.65
1978-79	3310	2042	61.69
1979-80	3490	1915	54.87
1980-81	4035	1543	38.24

Source: All India Income Tax Statistics (Annual)

TABLE 2

Dates of Publication of the All India Income Tax Statistic
1960-61 to 1980-81

Year	Date of publication
1960-61	June, 1962
1961-62	October, 1963
1962-63	September, 1965
1963-64	January, 1967
1964-65	July, 1968
1965-66	November, 1972
1966-67	September, 1969
1967-68	November, 1971
1968-69	October, 1972
1969-70	June, 1973
1971-72	November, 1974
1972-73	October, 1975
1974-75	August, 1976
1975-76	August, 1977
1976-77	July, 1978
1977-78	January, 1980
1978-79	January, 1981
1979-80	December, 1981
1980-81	March, 1983

Source: All India Income Tax Statistics (Annual)

The shortcomings of the data reported in the AIITS figurod in the discussions of the PAC recently. The deficiency of the AIITS data was brought out sharply by the wide divergence in the figure of the revenue effect of certain incentive provisions in the income tax like the tax holiday as given in the AIITS and estimates made independently by an official Committee of the Government (Ministry of Finance, 1980). In the course of the discussions before the PAC the shortcomings of the AIITS and the need for taking measures to improve the quality of direct tax statistics were acknowledged by the authorities (PAC Report 1981-82). Certain measures were stated to be under contemplation of the Government to remedy the defects of the direct taxes data. It is, in this context, that the Economic Administration Reforms Commission desired the NIPFP to undertake a study of the Information system prevailing in the Income Tax Department in respect of income tax and wealth tax and suggest measures for improvement. The objectives of the study principally are the following:

(i) to review the existing system of information collection, its contents, presentation and publication;

(ii) to list the items on which the information should be collected for the purposes of economic analysis;

(iii) to suggest a comprehensive information system for income and wealth taxes.

The system of compilation of income tax statistics is taken up first for consideration.

II. Existing Sources of Income-Tax Statistics and their Deficiencies

1. Existing sources

Currently, income tax statistics are available from the following publications:

(i) The Budgets of the Union Government - Annual;

(ii) Reports of the Comptroller and Auditor General of India on revenue receipts of the Indian Government - Annual;

(iii) All India Income Tax Statistics (AIITS) - Annual; and

(iv) State-wise Income Tax Statistics (SITS) Annual

While the AIITS and SITS are published by the Diredtorate of Inspection (Research, Statistics and Public Relations) in short DI (RS & P) of the Income Tax Department, the other tw publications are brought out by the Ministry of Finance. Besides these, data on assessments completed are compiled regularly by the Department on the basis of the progress rep received from field offices but they cover a limited ground are meant only for official use.

The Budgets of the Government of India give aggrega figures of the corporation income tax and taxes on income other than corporation tax along with receipts from other Union taxes. These figures relate to the tax collected in a year and so, in so far as income tax is concerned, includes collections out of arrears and current demand, tax deducted at source, advance tax demand and payments under self assessment and provisional assessment, net of refunds and adjustments. No information is available from these data about the actual tax base to which the tax revenue figures relate. Nor do they provide any disaggregation according to income range or any idea of the revenue effect of the various examptions and deductions.

The report of the Comptroller and Auditor General of India contains information on the points arising from the audit of corporation tax, income tax, wealth tax, gift tax, estate duty and payment of interest on tax for certain defaults such as delayed payment of taxes etc. The report gives fairly detailed statistics on the arrears of assessments. On income tax (including corporation tax) the report provides information on the following points:

1. The number of assessments pending at the beginning of a financial year
2. The number of assessments completed during the year both errear and current
3. Break-up of total number of assessments completed during the last two years under scrutiny assessments and summary assessments.
4. State-wise break-up of income tax assessments completed during the last two years.
5. Assessment year-wise position of pendency of income tax assessments as on 31st of March of the last two years.
6. Break-up of pending income tax assessments under scrutiny assessments and summery assessment as on 31st of March of the last two years.
7. Year-wise break-up of pendency of income tax assessments under company assessments and non-company assessments as on 31st of March of the year.

8. Number of assessees in the books of the Department as on 31st of March of the year.

9. Number of re-opened, cancelled and set-aside assessments.

The data contained in the C&AG's reports though useful in certain respects also do not provide the details or disaggregation needed for research analysis or evaluation of alternative policy measures. For information on the total income assessed, distribution of assessed incomes among different income ranges, in the aggregate and by source of income, distribution of business incomes accordingto the trade classification, tax effect of various reliefs and concessions allowed and other details, one has to turn to the AIITS published by the DI (RS & P). This publication contains the following statements based on assessments completed in a year:

1. Summary of demand, collection and arrears of income tax; and distribution of arrears of income tax, by range of tax in arrears.

2. Summary of net collection of income tax and corporation tax.

3. Analysis of assessments, gross income and gross tax, by source of income; deductions, rebates and reliefs, by nature of deduction etc; and tax deducted or other-wise paid at source, by source of income.

4. Number of assessments, gross income and gross tax from business and profession for companies and non-companies - industry-wise.

5. Number of assessments, income assessed and tax demand, by status and range of assessed income

6. Number of assessments and net income, by status and range of net income.

7. Number of assessments, gross income and gross tax - by source, range of income and status.

8. Break-up of number of assessments, income assessed and tax demand of individuals by salary and non-salary individuals and range of income assessed.

9. Number of company assessments, income assessed and tax demand - by range of income assessed and nature of company.

10. Number of assessments, income from capital gains and gross tax thereon - by status and range of capital gains assessed.

11. Number of assessments, gross income, losses set off, deductions and net income - by status and range of income assessed.

The State-wise Income Tax Statistics gives detailed information regarding items 3 to 6 mentioned above, for each State.

2. Deficiencies of the AIITS and SITS

As noted earlier, the main weaknesses of the AIITS which constitutes the principal source of detailed statistics on income tax are poor coverage and delay in compilation. A number of other deficiencies of the AIITS were noted by the Committee on Direct Taxes Statistics (CDTS, 1976) and others. The major deficiencies noticed in the AIITS, apart from inadequate coverage and time lag in publication, seem to be the following:

(i) Incomparability of time series data. The "inc reported in the AIITS represents assessed "total income" as contemplated in the Income Tax Act. The scope of assessed income being subject to the state of the tax law prevailing in the relevant year, given the frequent changes in the law the time series available from the AIITS are not quite comparable.

Another factor which affects comparability is that the data presented in the AIITS relate to assessments completed during a financial year rather than to the assessments pertaining to a given year. It is noticed that the proportion of number of assessments in respect of a "current year" to the total number of assessments completed in the year are in some years, as low as 49 per cent (Table 3). As a result, the data cannot be related to the national income of any particular year. This deficiency is now sought to be remedied with the publication of statistics relating to the assessments partaining to a given assessemen year, that is, by aggregating the assessments in respect of given assessment year even though these are completed over the period during which the assessments can remain open (i.e three years). But this publication unavoidably suffers from a time lag of almost four years and coverage of these statistics also remains poor.

(ii) Limited scope of "income" reported. The data in the AIITS are presented according to the ranges of assesse income rather than economic income of the taxpayers. The sco of assessed income being relatively narrow, compared to the concept of even realized rather than accrued income, the information available from AIITS cannot be used for forming any idea of the distrbution of "economic power" or taxable capacity of the taxpayers or their trends over time.

TABLE 3

Number of Assessments Completed in Different Years

Year	Total number of assessments completed during the year (thousand) (1)	Number of assessments for the current year out of col. 1 (thousand) (2)	Col. 2 ÷ Col. 1 (per cent) (3)
1960-61	1207	732	60.67
1961-62	1309	806	61.60
1962-63	1310	797	60.84
1963-64	1483	923	62.23
1964-65	1842	1155	62.71
1965-66	2389	1460	61.10
1966-67	2418	1333	55.11
1967-68	2557	1331	52.08
1968-69	3415	1673	49.01
1969-70	3558	2135	60.00
1970-71	3492	2249	64.39
1971-72	3844	2357	61.31
1972-73	3598	2507	69.68
1973-74	3436	2228	64.84
1974-75	3841	2424	63.10
1975-76	4008	2508	62.58
1976-77	3949	2289	57.96
1977-78	4044	2573	63.62
1978-79	3310	2106	63.66
1979-80	3490	1897	54.36

Sources: 1. Union Government (Civil). *The Audit Report on Revenue Receipts*, Direct Taxes (Annual, upto 1968-69).

2. Union Government (Civil). *The Report of the Comptroller and Auditor General of India*, Revenue Receipts, Direct Taxes (Annual, since 1969-70).

(iii) Lack of sufficient detail and disaggregation

a. The Income Tax Act provides for exemption, deduction or relief in various forms. Some items of income are totally exempt from income tax (e.g., those mentioned under section 10) and do not come within the scop of the "gross total income" as defined in the Act. The AII gives no indication of the size of these exemptions even in the aggregate.

b. Certain deductions are allowed from "gross tota income" mainly by way of concessions to promote specific objectives of policy (vide deductions allowed under the provisions of Chapter VIA of the Income Tax Act). The amount of deductions allowed under these heads are reported for each major item but only in the aggregate. Their distribution among different income-ranges is not give Even the aggregate figures seem to be grossly under reported as was found in the case of the deduction allowed on account of tax holiday for new industrial undertakings (vide PAC Report 1981-82).

c. A number of deductions are permitted under the law in the computation of incomes under various heads which strictly not in the nature of cost of earning but are allowe by way of incentives such as the investment allowance and weighted deduction for expenditure on scientific research in the computation of business income and deduction of a specif amount upto a specidied maximum from income from newly built houses in the computation of income from house property. No information on these deductions is available in the AIITS.

Absence of information regarding items mentioned in (a) and (c) and lack of complete and detailed information on items referred to in (b) above stands in the way of any attempt to evaluate the cost or benefit of the examptions and incentive provisions in the income tax law and also to forecaste the probable revenue effect of alternative policy measures.

(iv) Anomalies arising from reliance on returns received from employers on "no-demand-salary cases".

Under section 206 of the IT Act, employers are required to send o the Income Tax Authorities annually a detailed statement (Form 24) showing the salary, allowances paid to the employees and tax deducted. Not all employees covered in these statements file any return (unless they have any income from any other source). Information available from these statements is merged with the assessment data in the compilation of the AIITS. But statements of salary-no-demand cases (SNDC) which are so merged in the AIITS do not contain all the information relevant for other purposes. Hence the data emerging from the amalgamation becomes somewhat misleading. This is one of the reasons for the unduly small number of professionale such as doctors, engineers, etc. given in the statement 4 of the AIITS. The under-coverage arises partly from the fact that those figures do not include persons covered in Form 24 statement (e.g. doctors employed by Government who are not permitted any private practice). There i also the possibility of underestimation arising from failure of employers to furnish SNDC returns.

On the other hand, the merger of Form 24 information with data based on assessments gives rise to the possibility of double counting as returns are filed separately by a number of employees covered in Form 24 statements and information regarding their assessed incomes flow to the statistician through a separate channel. There is no arrangement at present for avoiding duplication of information relating to employees who file their individual return. As pointed out by the CDTS, the possibility of double counting is more serious in the case of individuals in the higher income brackets as, presumably, such individuals invariably file their return separately.

(v) Lack of information regarding occupation of employed individuals. While there is a classification of incom from business and profession regarding to trade/activity, no such classification is available for individuals assessed on income under other heads such as salary. As a result, there is no way of deriving any idea of the occupational distribution of income tax paying individuals as a whole or the average level and disparities in the levels of income in different occupation Information on occupational distribution of individual tax-payers deriving their income mainly from employment is useful f many purposes.

(vi) Inappropriate classification of business and professional income. The classification followed at present does not conform to the National Industrial Classification (NIC) 1970. In fact the present classification has remained unchanged since 1962-63. While continuity allows for comparability of the time series, conformity with NIC and national income accounting classification would be useful for various purposes (e.g. for estimating the quantum of unreported income in various activities). There is also the possibility of mis-classification because of incorrect specification in the basic data. The information on business and professional income by trade classification is also not available according to income ranges.

Some of the deficiencies of the AIITS pointed out by the CDTS are now sought to be remedied. Information is being collected on a number of additional items suggested by the CDTS as, for example, on investment allowance. But the AIITS continu to be drawn up basically on the same pattern as before and the improvements are yet to be incorporated in the compilation. The major shortcomings of the AIITS, namely, incomplete coverage, delay and lack of sufficient detail and disaggregation remain.

II. Factors Impeding Improvement of Income Tax Statistics and Possible Measures for Reform

Factors holding up improvement

Factors which may be regarded as responsible for the deficiencies of the income tax statistics noted in the preceding section basically are three-fold:

i) Bottlenecks in the flow of the basic input for the AIITS from the field offices to the Statistician;

ii) Incomplete coverage of the forms constituting the basic input; and

iii) Defective filling of the forms prescribed at present for furnishing information regarding assessments.

The primary source of information for the AIITS are the assessment forms "ITNS-150 and ITNS-150A". These are non-statutory forms required to be filled in by the Income Tax Officer on completion of an assessment. The Form No. ITNS 150A is relevant for companies. These forms are drawn up in such a manner as to enable the taxpayers to have a clear picture of the manner in which their income has been computed under the heads stipulated in the Income Tax Act after allowing for various deductions and exemptions and how the tax payable has been arrived at. Data provided in this form also constitutes the basic input for the compilation of the AIITS. Accordingly, field offices have been instructed to send the original assessment from to the Director of Statistics in Delhi directly and a carbon copy to the taxpayer.

On receipt of the assessment forms, the statistician gets them scrutinised and coded. Where errors are noticed in the entries, corrections are made wherever possible failin which they are referred back to the field officers concerned. Next, the particulars of assessment are punched and the data transferred to magnetic tapes and processed on the computer.

The fundamental reason why income tax statistics are so deficient is that the assessment forms do not flow in with any regularity to the Statistician's office in Delhi. Under the existing instructions, the assessment forms for all origin assessments completed during a month should be sent to the statistician by the 15th of the following month along with an advice note indicating the number of assessments completed and number for which the forms are sent. It appears, however, tha there is a persistently large backlog in the despatch of these forms. For instance, over 1/5th of the income tax circles did not send any monthly batch of assessment forms for the assess-ment year 1979-80 even after the lapse of one full year. For the year 1980-81, only assessment forms for barely one-fourth of the assessments completed had been received in the Statis-tician's office. The Statistician keeps a watch over the flow of these forms and reminds the defaulting field officers but, for obvious reasons, he cannot wait indefinitely for all the forms to come. Hence a cut-off point in time is fixed and forms received upto that date only are processed for compilatior of the AIITS. This is the most important single factor respon-sible for the incomplete and haphazard coverage of the AIITS data. There are of course other reasons underlying the incomp-lete coverage viz. that no information is sent to the Statistici regarding assessments which do not result in any demand or refur of tax, i.e., cases referred to as "N.A. and Filed". But these usually do not account for more than 5 per cent or so of the total number of assessments whereas undercoverage goes beyond 50 per cent of the total number.

The coverage of the AIITS is deficient not only in terms of the proportion of the total number of assessments covered but also in terms of the range of the information furnished. Although fairly detailed and running into four printed pages, the assessment forms which constitute the basic input of the AIITS do not cover all items on which information might be needed to formulate policy or analyse the impact of tax policy. Concessions are allowed in income tax in various ways and the ITNS forms do not provide for collection of information on each incentive or policy instrument variable in the tax system.

Inadequacy of the coverage of the assessment forms is compounded by the errors and omissions in filling them up by the field officers. A good number of forms received in the Statistician's office are not properly prepared and suffer from obvious defects. Besides, contrary to the instructions, only carbon copies of the forms are sent to the Statistician and often they are illegible.

Taking note of the problems faced by the Statistician in compiling the income tax statistics and their deficiencies, the CDTS had recommended a number of measures in order to cut down the delay and improve the quality of the data. For reducing the delay in compilation, the Committee had suggested that the information relating to assessments involving relatively small income might be compiled from a sample out of the assessment forms received from the field. Under the Scheme envisaged by the Committee, income tax statistics were to be processed on a selective basis by a sample tabulation of assessment froms of individuals with income of Rs. 25,000 or less and a complete enumeration in the case of others. The Committee had further suggested that only 10 per cent of the forms might be taken as sample in respect of taxpayers in all major States and 20 per cent for others. In order to improve the scope of the information furnished in the AIITS, the Committee had suggested a modification of the assessment forms ITNS 150 and ITNS 150A by deleting certain items and adding some which they considered to be necessary for policy purposes.

As noted before, several of the recommendations of the CDTS have been put into effect. The ITNS forms have been modified to accommodate some though not all suggestions made by the Committee. The sampling method has also been adopted for compilation of data relating to small income assessees. For individuals and registered firms with income of not more than Rs. 50,000, samples are drawn from the assessment forms received in the Statistician's office by the systematic sampling method. While this has presumably helped to cut down the time required for compilation, a lag of about two years persists. Besides, the basic infirmity of the AIITS, viz., incomplete and uncertain coverage remains. For the year 1980-81 the number of assessments covered in the AIITS which came out in March 1983, turns out to be less than 40 per cent (Table 1). A random check showed that the defects noticed in the preparation of the ITNS forms also continue. The sampling method followed for compilation of information from the assessment forms received serves a limited purpose, namely in saving time in compilation but it does not help in any way to improving the coverage or quality of the statistics compiled. The manner in which the assessment forms flowed into the Statistician's office from the field offices being totally unsystematic, they cannot be relied upon to provide a basis for scientific sampling either which could help derive some reliable estimates of the unreported data. The only attribute of which the current compilation possibly provides a somewhat reliable picture is the distribution of income among income tax payers. but the degree of error even in this cannot be predicted.

2. Possible Measures for Improvement

It is obvious that with the assessment forms as the basic input, if the deficiencies of the AIITS are to be removed and the time lag in their preparation significantly reduced, it is necessary to ensure that the forms are filled in correctly and despatched from the field offices within the stipulated time. Past experience only shows that this is not easy to achieve. Given the volume of work and the resources of the Department, it would be unrealistic to expect that things can be improved simply by pressurising the field officers. In any case, with the growing number of assessees the total may reach 8 million in the next ten years the task seems to be increasingly unmanageable.

If the compilation of tax data is to be expedited, the only practicable way is to rely on the information provided in the returns of income instead on an assessed figure. Under the existing income tax, the return for an assessment year is required ordinarily to be submitted by the end of June of that year and in any case by the end of September. If some way could be devised for the flow of information contained in the income tax returns to the Statistician as soon as they are filed, it should be possible for the Statistician to compile the data within the same assessment year itself. While this would mean that the tax statistics would be based on the returns rather than on assessments, this would ensure that the basic data on incomes, their distribution and the impact of various concessions and deductions will be available on a regular basis within a reasonable period of time. Reliance on return figures would not be misleading since over 75 percent of the assessment is now completed under the summary assessment scheme which contemplates assessments simply on the basis of the return (Table 4). Also, it would appear that the range of variation between income returned and assessed income is not large in the aggregate (not more than 10 per cent roughly of the aggregate assessed income). The proposed method would also have the merit of providing a way of estimating the population of the taxpayers in the country with some confidence, and thus lay down the basis for carrying out sampling on a scientific basis whenever felt needed.

The proposal for compiling and bringing out income tax statistics on the basis of information contained in the returns seems to have been accepted in principle by the authorities/ (AIITS, 1980-81, Introduction). However, it appears that details of how the new compilation can be made are still to be worked out. A few suggestions in this regard may not, therefore, be out of place.

a. Mechanism for channeling return data to statistician.

Quick flow of information based on income tax returns can be organised in two ways:

(i) A summary sheet may be prescribed for putting down information on specified items. The sheet will be attached to the return but with perforation so that it can be easily detached. Taxpayers may be asked to fill up this sheet along with the return so that it can be forwarded to the Statistician directly by the ITO as soon as the return is filed

(ii) Alternatively, the return forms may be so designed as to contain in perforated duplicate pages for those parts which contain information considered relevant for statistical compilation. Carbon papers (or carbon on the reverse of the original) may be provided in between these pages so that duplicate will get prepared automatically as the return form is filled up by the assessee. The carbon

TABLE 4

Break-up of the Assessments Completed During a Year According to Scrutiny and Summary Assessments

Financial year	Scrutiny assess-ments (1)	Summary assess-ments (2)	Total assess-ments (3)	Summary assessments as percentage of total assessments (4)
1971-72	682564	441141	1123705	39.26
1972-73	753799	638866	1392665	45.87
1974-75	1210009	2630037	3840846	68.47
1975-76	1527025	2480619	4007644	61.89
1976-77	1844624	1914129	3758753	50.92
1977-78	1055886	1987927	4043813	73.88
1978-79	898162	2412165	3310327	72.86
1979-80	917776	2572014	3489790	73.70
1980-81	953757	3081456	4035213	76.36

Source: Union Government (Civil). Report of the Comptroller and Auditor General of India. Revenue Receipts, Direct Taxes, relevant issues.

copies may be forwarded to the statistician as soon as the returns are filed. Some of the forms prescribed in the UK and USA are designed in this way to facilitate data compilation.

The suggestion for the first alternative may give rise to objections from taxpayers as it would imply some additional burden in filling up the return. This objection can be met if arrangements are made for automatic duplication of the return forms (or a part thereof) with the insertion of additional pages with built-in arrangement for carbon copying as suggested under alternative (ii) above. The cost of additional pages and the carbon may be recovered by pricing the return forms suitably. The cost of the form may be allowed as a deduction from the tax payable or may be added to the refund due in the case of a refundee. Pricing of return forms would also help prevent wastage of forms which is believed to take place at present.

b. Changes required in the return forms. In order that under the proposed system, information is available on all items considered important enough to figure in annual compilation, the return forms may have to be redesigned. In the forms now in vogue, annexures are prescribed - a summary of the income under different heads is required to be given in Part I of the return and there are annexures for setting out the computation of income under each head. Details regarding the deductions claimed in the computation of income under different heads have to be given in the relevant annexures. Since assessment forms will not be used as the input for statistical series, it would be necessary to introduce in the return form itself some of the items for which information is obtained at present through the ITNS (e.g., the sources of salary, such as Central Government, State Government, etc.), This can be done by expanding either the Part I or the annexures of the return.

The additions required would however be only marginal and should not lead to any appreciable increase in the length of the forms. The additional items which may be brought into the return form are indicated in Annexure 1. In order that the number of pages for which duplicate copies will be provided in the return do not exceed 3 or 4, the return forms may have to be redesigned by rearranging the order of the different parts and the annexures. The items in the return forms should be coded in the page provided for carbon copy for facilitating punching and computerisation.

Different return forms are now prescribed for different categories of taxpayers, i.e., Form No.1 for companies, Form No.2 for assessees (other than companies and charitable institutions) deriving income from business or profession and so on. The changes proposed here in the return forms, if accepted, may be incorporated with appropriate changes in the forms. The break-up in Part I and the pattern of annexures setting out the computation of income under each income head should however be identical in all returns.

Enlargement of the return forms proposed above, even though essentially marginal - as the information required to be provided in the return is now furnished anyway through statements attached to the return - may give rise to criticism and opposition from taxpayers. In order to make the task of return filling simpler for vast tax payers, non-corporate assessees with total income of less than a specified figure may be exempted from furnishing information in respect of certain items. These items may be marked with an asterisk in the return or a separate return form may be prescribed for assessees with income falling below the specified limit.

To keep a check on the flow of duplicate parts of the return forms proposed above, it would be advisable to require the ITOs to send a copy of the entries in the Return Receipt Register (RRR) maintained in their offices. Whenever a return is filed, an entry has to be made in this register showing the name of the assessee, the permanent account number, the income or the wealth returned, and a few other particulars such as the number of documents attached with the return. A duplicate may be provided for each page of the RRR which may be taken out simply by using a carbon paper. For facilitating the processing of the enormous volume of data which should be reaching the Statistician's office under this system, the method of stratified random sampling of information in respect of assessees below a specified level of income should be followed. The cut-off point and the size of the samples may be suitably varied to keep the task manageable without sacrificing reliability. It would be useful for sampling purposes to introduce in the RRR, a column to indicate the status of the assessee. The duplicate copy of RRR need not cover all the items now contained in that register but only four or five viz., serial number, name and address of the assessee, the permanent account number, income/wealth returned and status.

If the system suggested above works properly, it should be possible to compile the basic income tax statistics on a sound basis and without any delay. But the series which would emerge from this attempt would not give any idea of the range of variations between the figure of income as shown by the taxpayers and assessed incomes and the variations may not be negligible in the case of taxpayers in the upper brackets. However, the inputs for the new series would serve to provide a fairly comprehensive picture of the population f taxpayers. Hence the annual statistics to be compiled on he basis of the returns can be supplemented with information n assessments gathered on sample basis. The sample survey for this purposes need not be taken every year but may be carried out for every fourth assessment year, e.g., for the ssessment years 1984-85, 1987-88, 1990-91 and so on.

d. Compilation of additional tables. Once the essential return data are computerised it should be possible to present more tables with different criteria of classification. For instance, tables can be constructed to show the income-range wise distribution of the amounts claimed as deduction available under the major heads. e.g., for contribution to long term savings under section 80C, donations to charities under section 80G and so on. Other items of deduction or exemption for which it would be useful to have income range wise distribution are: deduction or exemption under sections 10(15), 35, 80HH, 80HHA, 80I and 80L.

It should also be possible to provide classification according to ranges of gross total income instead of total income. In U.S.A., the annual publication Individual Income Tax Returns is required under the law to provide information "on the amount of tax paid by individual taxpayers with high total incomes" as well as "the number of such individuals who owe no Federal income tax". It is also specified in the law that apart from adjusted gross income, three additional income concepts are to be used as "classifiers" viz., adjusted gross income plus excluded tax preferences, adjusted gross income less investment interest and "expanded income" derived by adding tax preferences to and subtracting investment interest from adjusted gross income (U.S. Treasury, 1980). Multiplicity of "gross income" concept may create confusion. However the gross total income as defined in the Income Tax Act should be the basis for classification purposes for statistical compilation.

It is noticed that the CDTS considered the point but favoured the retention of "assessed income" as the basis. For analytical purposes, gross total income, if not gross income in the usual sense, seems to be more appropriate.

With the new series to be brought out on return income basis additional tables may be provided also for the range-wise income and tax payable by companies, separately for government companies, widely held private sector companies and others.

c. Information on points not comprised in annual compilation. Even with the addition of items in the return form suggested here, it may not be possible to compile in the annual publication data regarding all items of information one may require for purposes of research or for any other specific purpose. For meeting such requirements, it would be necessary to organise sample surveys. Once a firm base for the population of taxpayers is set up there should be no difficulty in organising sample surveys.

Suggestions for other measures.

(i) Amendment of Form No. 24. One of the shortcomings of the AIITS noted by the CDTS is the absence of information on the occupational distribution of individuals. For remedying this deficiency the Committee had recommended some amendment in the proforma for the statement required to be furnished by employers in respect of their employees (Form 24) and a corresponding change in return Form No. 3

Form No. 24 now provides a column for indicating the occupation of the employees. But this refers to the occupation rather than the activity in which the employee is engaged. The occupational distribution of individuals including those who derive their income from employment can be derived from this information. However, this would be of no help to classify the value added through the activity of the taxpaying population according to industry of origin. For this purpose, it would be necessary to know the type of activity of the employers. This information can be easily obtained by asking the employers to indicate somewhere in Form 24 the type of their dominant activity. A cage may be provided at the top of Form 24 with codes for each of the sectors under which national income according to industry or origin in computed.

The suggestion made by the CDTS for avoiding double counting from inclusion of salary income twice in the case of employees filing individual returns should be implemented. It only requires suppressing the figure of salary income gathered from the assessment forms (or the returns when the new scheme is introduced).

(ii) Administrative measures. It appears that duplicates of Form 24 statements though required to be filed in the income tax offices do not reach the statistician regularly or in time. There are about 1,00,000 employers from whom these statements are expected. There does not seem to be adequate check on the timely flow of these statements although they form a very valuable source of information both for assessment as well as statistical purposes.

For keeping a watch over the submission of information required for statistical purposes it would be useful to have a statistician posted in each Commissioner's charge. The statistician would be working under the Director of Statistics but attached to the office of the Commissioner of the station of his posting. It would be his duty to ensure the timely despatch of the basic inputs for statistical compilation to the Director of Statistics in Delhi. He may also scrutinise the inputs and get the errors or inadequacies corrected by the offices concerned. A statistician at the Commissioner's office with necessary complement of staff would be needed also to help organise sample surveys from time to time. Such a unit can render valuable help also in the compilation of reports and returns required to be submitted periodically by the Commissioners to the Board or the Directorates.

One reason why the quality of the inputs for statistical compilation remains poor is that a large number of reports and returns (over hundred) are now asked for from the field offices. The number of various periodical reports and statements currently in vogue is indicated in Table 5. Attempts have been made to cut down the number of these reports. Committees were appointed within the Department to have a look at the existing practice and suggest rationalisation. But even so the number remains for-midably large. Then there are ad-hoc demands for information required for answering Parliament questions and so on.

The need for avoiding asking for ad-hoc information was stressed by the CDTS. With a better data base and computerisation it should be possible to provide all information regarding the basic facts relating to the operation of the income tax without referring to the field offices. The aim should be to keep on the tapes all essential facts gathered from income returns and also the periodical administrative reports regarding assessment, demand and collection.

A prerequisite for an efficient statistical system is an efficient arrangement for record keeping. Even if the system of compilation of statistics is reformed towards greater reliance on return figures, it will not be possible to collect

TABLE 5

Calender of Statements to be sent by Commissioners of Income Tax to CBDT/Directorate

Monthly	
Board	4
Directorate	17
Quarterly	
Board	6
Directorate	23
Annual	
Board	2
Directorate	10
Others	
Board	5
Total	67

Administrative reports to be sent to CBDT/Directorate

Annual	10
Half yearly	6
Monthly	4
Quarterly	20
Total	40

information
/on all items which might possibly be required for a specific purpose. That would make the return forms unduly lengthy and the task of compilation unmanageable. It is worth noting that even in advanced countries like the UK where the tax statistics give detailed information on many points relevant for research and analysis, e.g. the return costs of allowances and reliefs, there are a fairly large number of items on which no estimates are furnished. There is no way of gathering information on such items except possibly through sample surveys. Proper maintenance of records is essential if such surveys are to be carried out. Efficient record keeping is also required if selections are to be made in a scientific manner for scrutiny out of assessments completed under the summary scheme. Such selection is indispensable if the summary assessment scheme is to operate successfully without opening up scope for abuse. It may be worth noting the practice followed in the USA for picking up cases for "audit" i.e., scrutiny is based on scientific sampling. A note on the US practice in this regard is given in Annexure 2.

I

1. Existing sources

At present wealth tax statistics are available from the following sources:

(i) Budgets of the Union Government (annual)

(ii) Report of the Comptroller and Auditor General of India, Union Government (Civil), Revenue Receipts, Vol. II, Direct Taxes (annual)

(iii) All India Wealth Tax, Gift Tax and Estate Duty Statistics (AIWTGTEDS), Directorate of Inspection (Research, Statistics and Public Relations) in short DI (RS&PR) (annual)

The Central Government Budgets give the aggregate figure of wealth tax collection every year while the reports of the Comptroller and Auditor General (C&AG) furnish information regarding the total number of assessees, assessments made in a year, year-wise break-up of pending assessments, appeals, and arrears, disposals of appeals and revision petitions, penalties for concealment and a few other details bearing on the administration of the tax. For information regarding distribution of assessments according to range of wealth and status one has to turn to the All India Wealth Tax, Gift Tax and Estate Duty Statistics (AIWTGTEDS) brought out by the Directorate of Inspection (Research, Statistics and Public Relations) of the Income Tax Department. The content of this publication however is meagre and it does not go beyond providing information on assets in and outside India for individuals and Hindu Undivided Families with their distribution. No information is available either about the pattern of wealth holding, i.e., by type of assets and the exemptions or their distribution. Hence it is also not possible to form any idea of the distribution of what may be called "gross total wealth". Even the data furnished suffer from a number of deficiencies and one cannot form any idea of the degree of their reliability.

2. Deficiencies of the AIWTGTEDS

Most of the shortcomings in the income tax statistics are noticeable in the statistics available on wealth tax too. Their coverage is incomplete and unsystematic; the range of information furnished is limited and inadequate for research and policy purposes; and the time lag in their publication is unduly large. In fact, the deficiencies of the wealth tax statistics in some respects are more acute. The deficiencies of the AIWTGTEDS and the factors underlying them are discussed further below.

(i) Delay in publication. The AIWTGTEDS is usually brought out with a lag of about 2 to 3 years (Table 6) which detracts considerably from its utility. The major factor responsible for the delay in its publication is the persistent failure on the part of the field officers to send on time the basic material on which the compilation is based to the statistician. The basic source of information for the compilation of the AIWTGTEDS is the wealth tax assessment form (WTNS16). These forms are supposed to be filled by the the Wealth Tax Officers on the basis of the wealth tax assessment completed and sent to the Directorate of Statistics regularly within a specific period of time. It appears that the assesement forms are neither sent in time nor filled in properly in the field offices. As a result, the wealth tax statistics are now being compiled on the basis of information contained in the quarterly returns (form No: Q-34) required to be submitted by the Wealth Tax Officers to higher authorities. The compilation of statistics cannot obviously be delayed indefinitely. The information

TABLE 6

Date of Publication of the All India Wealth Tax, Gift Tax and Estate Duty Statistics

Year	Date of Publication
1970-71	NA
1971-72	NA
1972-73	NA
1973-74	NA
1974-75	June, 1978
1975-76	July, 1978
1976-77	October, 1979
1977-78	March, 1981
1978-79	February, 1982
1979-80	August, 1982
1980-81	March, 1983

Note: NA = Not available

Source: All India Wealth Tax, Gift Tax and Estate Duty Statistics (Annual) which flows in within the extended time limit often covers less than 50 per cent of the assessments made in the financial year as may be seen from the proportion of the number of assessments for which the data are compiled in the AIWTGTEDS and the total number of assessments completed in a financial year (vide Table 7).

(ii) Poor coverage. Bottlenecks in the flow of information regarding assessments to the statistician not only cause delay but also result in grossly incomplete coverage of the statistics compiled. As Table 7 will show, the coverage of wealth tax assessees in the AIWTGTEDS, has been, in some years, as low as 27 per cent of the assessments (1978-79). No information on the population of the Wealth tax payers is available to blow up the statistics to the desired level.

Since 1977-78 the Wealth tax statistics for assessees with net wealth less than Rs. 3 lakh are compiled on a sample basis as it has been found that the tax demanded from such assessees and their wealth does not very much over time. However, these samples are drawn out of the information received and not from the population of taxpayers in this range. Hence, the inherent deficiency of the statistics resulting from incomplete and haphazard coverage remains.

(iii) Incomparability of time series data. The assessments completed in a year are a mixture of current assessments and arrear assessments. The number of assessments completed in a year may vary for a number of reasons such as the time and attention devoted to wealth tax work by the assessing officers. Also, the proportion of current assessment to the total number of assessments completed in a year vary widely from year to year (Table 7, column 5). Besides, the net wealth and tax assessed are subject to change in the law. All these render the data based on assessments made in a year incomparable over time. For these reasons the statistics compiled from the assessment figures cannot be said to correspond to any particular year, and the data given

TABLE 7

Coverage of Assessments in the All India Wealth Tax, Gift Tax and Estate Duty Statistics 1976-77 to 1980-81

Year	Number of Assessments completed: Total (Thousand)	Number of Assessments completed: Out of current (Thousand)	Number of assessments covered in AIWTGTEDS (Thousands)	Coverage (3)/(1) (per cent)	(2)/(1) (per cent)
	(1)	(2)	(3)	(4)	(5)
1976-77	280	113	135	48.33	40.36
1977-78	319	132	154	48.38	41.38
1978-79	475	115	130	27.44	24.21
1979-80	326	109	108	33.05	33.44
1980-81	351	100	99	28.21	28.49

Sources: 1. Column 1 from Union Government (Civil). The Report of the Comptroller and Auditor General of India. Revenue Receipts, Direct Taxes (Annual).

2. Column 2 from Directorate of Inspection (Research Statistics and Public Relations) All India Wealth Tax, Gift Tax and Estate Duty statistics (Annual).

in AIWTGTEDS cannot provide a measure of the aggregate wealth held by wealth tax payers at a particular period of time.

(iv) Restricted scope of "wealth" reported. The information regarding wealth assessed furnished in the AIWTGTEDS relates to "net wealth" as contemplated in the Wealth Tax Act. Under the law, net Wealth is computed after allowing for all deductions and exemptions and exluding all assets not coming within the purview of the Wealth tax. Thus wealth reported in the AIWTGTEDS does not reflect the actual economic worth of the tax payers. The distribution of wealth tax assessees according to net wealth classes does not, therefore, give a meaningful picture of the degree of inequality in wealth holding among wealth tax payers.

(V) Lack of information

(a) Information by type of assets. Information according to type of assets such as movable and immovable properties, or assets of business or profession and other assets is not given in the AIWTGTEDS even in the aggregate. No meaningful analysis is thus posssible of the assets preferences of wealth tax payers or how the preferences have changed over time.

(b) Information on assets exempt or assets excluded from wealth tax base. No information is available on the assets that are either exempt or which are excluded from net wealth under various provisions of the Wealth Tax Act even in the aggregate. Hence, as mentioned earlier, net wealth figures cannot be adjusted to indicate the distribution of total wealth among wealth tax payers. Nor is it possible to evaluate the various concessions given through the tax system to encourage savings in specific forms or to serve other objective of policy.

(vi) <u>Inconsistencies of wealth ranges in wealth tax statistics with the principal value ranges in estate duty statistics.</u> The ranges of net wealth under which wealth tax payers are classified in wealth tax statistics are not the same as the ranges of principal value under which estates assessed for estate duty are calssified. This inconsistency stands in the way of estimating the extent of leakage of estate duty due to avoidance and evasion in different wealth ranges. For purposes of judging the efficiency of estate duty administration and also for building up reliable wealth distribution data, it is desirable to have the same wealth classes for both wealth tax statistics as well as estate duty statistics. At least the classes should be so designed for both as to be comparable.

V. Suggestions for Reforms of Wealth Tax Statistics

As in the case of income tax statistics the main factor underlying the deficiencies of the WT Statistics is the poor supply of the basic input, namely, the assessment forms, to the Statistician as a result of which reliance is now placed more in the quarterly returns. If the coverage and quality of WT statistics contained in the AIWTGTEDS is to be improved and the publication is to be brought out within a reasonable period of time the only practicable way seems to be to rely on the information furnished by taxpayers in their wealth tax return instead of the assessment forms. If some arrangement can be devised to get the data furnished in the return despatched to the statistician as soon as the return is filed, it should be possible for the statistician's office to compile the data relating to a given assessment year within the year itself. This procedure would at least ensure that the basic information regarding wealth of taxpayers, their distribution and the deductions/concessions allowable under the various provisions of the Wealth tax act will be available regularly without any de

As noted already the proposal for compiling the income tax statistics on the basis of the taxpayers return seems to have been accepted in principle by the authorities. The need for switching over to the return data for wealth tax statistics is equally urgent. Measures which might be taken to introduce a scheme of return-based statistical information system for income tax have been outlined by us in the earlier part of the report. The information system for wealth tax may also be developed on the same lines. The manner in which the scheme may be worked for wealth tax is indicated below:

a. Method of chanelling return data to the statistician. As in the case of income tax statistics, a simple way of gathering the information furnished in the return for purposes of statistical compilation is to prescribe a summary sheet to be attached to the return form in which the information required for statistical purposes would be set out along with codes for punching. Alternatively, the return form may be so designed that the first few pages of the teturn would get duplicated automatically when the return is filled in by the assessee. The perforated duplicate copies or pages should be taken out when the return is filed and despatched to the statistician along with an advice note.

The summary sheet scheme has the merit of simplicity in operation but would involve some additional work by the taxpayers. Since the wealth tax returns are required to be filed by relatively well-to-do taxpayers, the obligation to fill up a summary sheet should not give rise to any serious objection. However, if this proposal is found to be unacceptable, arrangements can be made in the return form itself for having duplicate copies of certain pages of the return to be made automatically with the help of a carbon paper inserted between the relevant pages and the return forms may be priced suitably with provision for allowing the cost of the form to be deducted from the tax paid.

b. Changes required in the return forms. To facilitate the flow of information to the statistician the return forms have to be redesigned on the following lines. First, information on all items relevant for statistical compilation should be contained in the first 3-4 pages of the return. In the forms now in vogue, a summary of assessable wealth in different forms including exempt items is to be given in Parts I to III of the return and annexures are prescribed to set out the computation of different forms of wealth under each category. Some of the details regarding the deductions claimed in the computation of net wealth under different categories are to be given in the relevant annexures. Parts I and II of the return which contain the summary may be expanded to include some of the information relevant for statistical compilation) spread over a few pages in the annexures. Also, those parts of the return which call for information regarding agricultural land may be deleted as agricultural wealth is no longer subject to wealth tax. In particular, the following changes may be made in the return form:

(i) Annexures I and II should be deleted and the remaining annexures whether used in the title or in footnotes should be renumbered. Accordingly, the present Annexure XV will become Annexure XIII and in the footnote 2 in this annexure the words Annexure I to IV will be substituted by the words 'Annexure I and II'.

(ii) In Annexure IV the words 'Total value' should be substituted by the words 'Total value taken to section A (column (3)) of Part I of this Return' and the next two lines corresponding to deduction and net value should be deleted as these are introduced in Part I of the summary.

(iii) In Annexure V, the words 'to the extent not availed.... ....in Annexute IV' should be deleted.

(iv) In Annexure VI, the words '(to the extent not availed ....in Annexure I or II)' after item 11 and Rs. 20,000' in item 16 should be deleted.

(v) Parts I and II of the summary of wealth should be presented as given in Table 8.

(vi) Part III of the return should be expanded to provide information on some of the major items of the exempt assets which do not form part of the net wealth. It would help adjust the definition of wealth to suit economic analysis wherever necessary. Accordingly, Section 4 should be included in this part and it should provide for information on the following items :

1. Investment in Gold bonds, Capital Investment bonds etc. u/s 5(1) (Xvi b-d).
2. Deposits with co-operative housing society u/s 5(1) (xxx).
3. Assets purchased with foreign exchange etc. u/s 5(1) (xxxiii) and 5(1) (xxxiv).
4. Balance in Provident Fund u/s 5(1) (xvii and xviia).
5. Insurance - sums for which insurance policy taken u/s 5(1) (vi).

Finance Act 1983 revived the levy of wealth tax on some of the assets of the companies. A separate Wealth Tax Return Form can accordingly be designed for the companies with duplicate pages provided for those parts of the return which would contain the basic information regarding the value of assets etc.

For the working of the system of compilation of wealth tax statistics on the basis of return data the flow of either the carbon copies of Parts I to V and of Annexures III and IV (revised) of the return or of summary sheets containing the

TABLE 8

Statement of Assets and Debts as on the Valuation Date

Particulars	Assets of business or profession value Rs	Other assets value Rs
(1)	(2)	(3)
PART-I ASSETS LOCATED IN INDIA		
Section A - IMMOVABLE PROPERTY-as per Annexure I/Annexure II		
Less: Amount exempt u/s 5(1)(IV)		
Balance of Section A		
Section B - MOVABLE PROPERTY-as per Annexure III/Annexure IV		
Section C - Total of Section A & B		
DEDUCT: Total value of debts in India owned by the assessee-as per Annexure V/Annexure VI		
BALANCE - Wealth in India		
PART - II ASSETS OUTSIDE INDIA*		
Section D - IMMOVABLE PROPERTY-as per Annexure VII/Annexure VIII		
Section E - MOVABLE PROPERTY-as per Annexure IX/Annexure X		
Section F - Total of Section D & E		
DEDUCT: Total value of debts outside India owned by assessee-as per Annexure XI/Annexure XII		
BALANCE -Wealth outside India		

* This part is not applicable to and need not be filled in by assessees who are not citizens of India or who are not resident in India or who are resident but not ordinaty resident in India.

information given in these parts of the return to the statistician has to be organised as suggested above. If this system works properly, it should be possible to compile the basic wealth tax statistics for all wealth tax payers in a short period. Only the information regarding those who do not file the return within the prescribed period will not be included. But the series which would emerge from this system would not give any idea of the range of variation between the figure of wealth as shown by the taxpayers and assessed wealth. Because of the scope for divergence in the matter of valuation, these variations may not be negligible. Therefore, this series of statistics should be supplemented with information on assessments pertaining to a given assessment year. This supplementary series of statistics needs not be compiled every year, and may be brought out for every fourth assessment year e.g., for the assessment years 1984-85, 1987-88, 1990-91 and so on.

c. <u>Compilation of additional tables.</u> Once the essential return data are computerised it should be possible to present more tables with a wider range of criteria of classification. Tables can be constructed to show the distribution of assets by asset type (such as movable and immovable assets, business and non-business assets) and also that of deductions and exclusions from the wealth tax base for taxpayers in different wealth brackets. Specifically, for assets located in India wealth class-wise distribution of the following items should be presented:

(i) Assets of business or profession:

a. Immovable property
b. Movable property
c. Total of a and b
d. Assets of business or profession exempt under section 5(1 A).
e. Debts in India relating to business assets.

(ii) Assets other than assets of business or profession

a. Immovable property
b. Movable property
c. Total of a and b
d. Debts in India relating to assets other than business assets.

(iii) Total assets located in India

a. Immovable property
b. Movable property
c. Total of a and b
d. Assets exempt under section 5(1A)
e. Debts in India owned by the assessee.

The wealth class-wise distribution of similar items for the assets located outside India should also be presented. The items of exclusion for which it would be useful to have wealth class-wise distribution are:

(i) Investment in bonds etc. exempt u/s 5(1) (xvi b-d) ;

(ii) Deposits with co-operative housing society u/s 5(1) (xxx); and

(iii) Foreign exchange assets u/s 5(i) (xxxiii) and 5(1) (xxxiv).

It should also be possible to provide classification according to ranges of 'gross wealth' instead of net wealth where gross wealth would include (i) net wealth, (ii) exemptions under section 5(1A) and (iii) exclusions of wealth listed above on which the information is asked for in the proposed revised wealth tax return.

In addition aggregate figures should be given for all items contained in Annexure III and IV of the revised wealth tax return.

In order that the principle value ranges in the estate duty statistics can be matched with the wealth data, the wealth-classes in the wealth tax statistics should include the ranges Rs. 5-10 lakh, Rs. 15-20 lakh and Rs. 25-30 lakh. Further, as the wealth tax payers are concentrated in the lower wealth ranges, it would be better to have small wealth ranges at the lower end. Accordingly, wealth tax statistics may be given according to the following 19 wealth ranges instead of the present 18 :

Wealth range Rs lakh
1.5 - 2
2 - 2.5
2.5 - 3
3 - 3.5
3.5 - 4
4 - 4.5
4.5 - 5
5 -7.5
7.5 - 10
10 - 15
15 - 20
20 - 25
25 - 30
30 - 50
50 - 75
75 - 100
Over 100

As noted in the case of income tax statistics, a prerequisite for an efficient statistical system is an efficient system of record keeping. Even if the system of compilation of statistics is reformed towards greater reliance on return figures, it will not be possible to collect/publish information on all items in detail which might possibly be required for a specific purpose. For such details one has to depend on sample survey. With a reliable idea of the population of tax payers sample surveys can be organised in a scientific manner. Proper maintenance of record is however essential if such surveys are to be carried out.

Annexure 1

Additional Items to be Included in the Income-tax Return Forms

Information on most of the items enumerated in tho ITNS (assessment) forms is required to be furnished by the assessee in the return form either in the main body of the form or through statements attached. For ensuring that the information regarding the items which would go into statistical compilation are properly added and not missed out by the assessee, some items of the information now furnished in the return through statements may be incorporated in the return form itself. The items which may be so incorporated are indicated below:

A. Return forms No. 2, 3 and 3A provide space on the first page for furnishing information required for determining the status and residence category (i.e. whether resident or non-resident, etc.) of the assessee apart from the name, address, assessment year and permanent account number. The status classification follows the various categories mentioned in section 2(31) of the Income Tax Act. It does not, however, bring out whether the assessee is a registered firm or an unregistered firm or a cooperative society or a Hindu Undivided Family chargeable at higher rates. As separate rate schedules are prescribed in the law for these categories, it is necessary to classify tax-payers under each such category. The alternatives mentioned in the return for indicating the status of the taxpayer should spell out these categories also.

B. Particulars of income under different income heads:

1. Salaries: The computation of salary income is now required to be shown in Annexure A of Form No 3. The annexure is fairly detailed and need no further elaboration. Form No. 2, however, does not contain this annexure and assessee using this

form are required to furnish the details of computation of their salary income, if any, in a statement to be drawn up in the manner indicated in the notes. The notes contain the same details as Annexure A of Form 3. It would be desirable to provide for an annexure for computing salary income in Form 2 also instead of having it to be furnished in a separate statement.

2. Interest on Securities: There should be an annexure in the return forms for income under this head with the following break-up:

Gross amount of interest received on
(i) Government Securities
(ii) Debentures
(iii) Others
Less: (i) Interest on tax-free securities
(ii) Deductions

3. Income from House Property: Form Nos. 2 and 3 contain annexures indicating the income under this head but these annexures do not give details of the computation. These details are to be given in the Statements required to be attached giving particulars on the lines indicated in the notes. Even though they do not give all particulars of computation of house property income, the existing annexures are adequate for statistical purposes except that there is no provision in them for indicating the deductions allowed by way of incentives for new construction. Insertion of just one item in the annexure for house property income to show the allowance for newly constructed property would serve the requirements of statistical compilation. An annexure of this head so designed should be included in the return forms in which it is absent at present.

4. Profits and Gains of Business or Profession: The return form meant for assessees having income from profits and gains of business does not contain any annexure to indicate the computation of income from business or profession in the return form itself. The computation of such income is required to be shown in a statement to be attached separately with the return. The notes appended to the return form indicate how the income from business and profession should be computed. The items set out in the notes are fairly exhaustive and include practically all items of permissible deduction in the computation of income under the head business or profession (i.e., sections 29 to 43). However, in order that the statement of computation of income from business or profession is standardised and each head is properly coded it would be adviseable to lay down the proforma for the computation of income under this head in an annexure in the return form. The annexure can be designed on the following pattern:

Annexure - Income from Business or Profession

	1.	Net profits as per profits & loss account	
Add	2.	(a) Losses of earlier years	
		(b) Items inadmissible under the law	
		(c) Depreciation, investment allowance, etc. considered separately	
		(d) Amounts not credited to profits and loss account but chargeable under the law	
	3.	Total of 1 and 2	
Deduct	4.	(a) Depreciation under section 32	
		(b) Investment allowance under Section 32A	

(c) Allowances under sections 33A and 33B

(d) Expenditure on scientific research under Section 35

(e) Expenditure on acquisition of patent rights and copyrights under section 35A

(f) Agricultural development allowance under section 35C

(g) Other deductions admissible under the law but not debited to profit and loss account

(h) Income not chargeable to tax but credited to profit and loss account

5. Total of 4(a) to (h)

6. Net taxable profits (Item 3 minus item 5)

An annexure on the above pattern may be incorporated in the return form for companies also. However, they should also furnish the information required to be given in the annexures of existing form No. 1.

5. Income from Capital Gains: The existing annexure for the computation of income under this head (Annexure C of Forms 2 and 3) is adequate for statistical purposes.

6. Income from other Sources: There is no annexure for this head in the forms. However, the break-up required to be given in part I of the return is adequate.

C. Deductions: The annexure for deductions, (Annexure C of the return form No. 1 and Annexure D of form Nos. 2 and 3) should contain information on the following items (items which are additional to the existing ones are marked with an asterisk):

(i) Payments under section 80C (for non-company assessees only)

a) Provident fund

b) Life insurance premium

c) ULIP

d) Others

*(ii) Investment in new shares eligible for deduction under section 80CC (for non-company assessees only)

(iii) Donations deductible under section 80G

*a) Amounts qualifying for 100 per cent deduction

*b) Amounts qualifying for less than 100 per cent deduction

*(iv) Donations for scientific research or rural development under section 80GGA

(v) Profits of new industrial undertakings in backward areas deductible under section 80HH

(vi) Profits of new small scale undertakings deductible under section 80HHA

(vii) Profits of industrial undertakings deductible under section 80I

(viii) Profits from business of live-stock breeding or poultry or dairy farming under section 80JJ

(ix) Income deductible under section 80L (for non-company cases only)

a) Interest on securities

b) Bank interest

c) Dividend on shares

d) others

(x) Inter-corporate dividends under section 80M (for companies only)

a) Amount qualifying for 100 per cent deduction

b) Amount qualifying for less than 100 per cent deduction *(xi) Dividends received from foreign companies under section 80N (for companies only)

*(xii) Royalties, etc., received from foreign enterprises under section 80-O) (for companies only)

(xiii) Deductions under section 80P

(xiv) Deductions under sections 80R, 80RR and 80RRA

(xv) Long-term capital gains under section 80T (for non-company cases only)

a) Capital gains relating to lands & buildings

b) Capital gains relating to other assets

(xvi) Others

D. Income exempt from tax: There is no provision in the return form for obtaining information regarding incomes exempt from tax. Part III of the return forms provides space for showing income claimed to be exempt from tax and not included in Part I. However, It is generally presumed that this part is meant for disclosing the income which the taxpayer claims to be exempt but on which there can be an honest difference of opinion. There is no obligation to disclose incomes which are beyond doubt outside the scope of the Income Tax Act. For a proper measure of the taxable capacity of taxpayers, ideally, one should have information regarding all incomes earned in a year including those which are exempt. To call for information on all such items would not however be practicable. Nevertheless, not only for purposes of ascertaining economic income but for keeping record of regular sources of income and the efficacy of exemptions given in the law, some provision needs to be made for obtaining information regarding some of the important categories of such incomes. Hence some provision should be made for obtaining information regarding income from interest on small savings exempt under section 10(15). An additional part may be inserted in the return form to call for this information.

Misgivings are sometimes expressed about tho legality of asking for information regarding incomes not liable to tax. It is, however, well established that the powers to levy a tax also authorises measures necessary for its proper enforcement. There should therefore be no difficulty in asking for information regarding not only exempt income, but also on expenditures and wealth of the assessee in enforcing income taxation.

System of Selecting Income Tax Return for Audit in the U.S.A.

In selecting returns for "audit" or scrutiny in an objective and impartial manner and to ensure adequate scrutiny of returns which are most in need of audit, the Internal Revenue Service (IRS) of the U.S. uses what is called the Discriminant Function (DIF) system to select individual and small corporation returns.

For purposes of selection of returns for audit, the taxpayers are classified into audit classes according to their economic characteristics. While the corporations are classified according to the size of their gross assets, the individual taxpayers are classified according to their adjusted gross income (AGI). Individual returns are further classified with respect to business or non-business returns, and itemized or non-itemized returns.

The DIF system consists essentially of a mathematical formula to select returns for audit from each audit class as defined above. In each audit class, the computer assigns weights to items in the tax return including the deductions availed etc. and to certain relationships between the items (such as relationship between gross income and return income). The relationships between items are the key variables in this system which are indicative of the probability of "tax error", i.e., variation between return figure and the assessed figure. Higher the probability of "tax error", higher is the weight assigned to a particular relation between the items. These relationships are determined on the basis of the experience of the IRS about tax errors in the returns audited in the Taxpayers Compliance Measurement Programme (TCMP) sample. These individual weights are summed to get an index score for each return which indicates the audit potential of the return. In an audit class, higher the score of a return, higher the probability of substantial tax error. Returns with index score above a certain level are selected for scrutiny. The cut-off point and the exact criteria for selection are however not disclosed. The success of the system lies in the secrecy of the weights and the relationships between the items in the return taken into consideration.

Since the DIF scoring system is not perfect, all the returns with high score are screened by the experienced examiners to eliminate the returns not warranting audit, for example where the taxpayer has given satisfactory explanation for the questionable issue. This screening also allow the IRS to determine the scope and type of examination for each of the returns warranting audit.

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