

4. RESTRUCTURING

63. Reform of tax administration is an integral part of tax reform. The Committee note that with this background, a scheme of restructuring of the Department of Revenue was proposed in the year 2000 to tackle the exponential increase in their volume of work. Its components were to restructure the department, retrain and reorient its personnel through functionalisation, increase in the number of officers rationalising the span of control for better supervision, control and management of workload and reorientation, retraining and redeployment of surplus staff by increasing the level of existing work norms and providing appropriate incentives like promotions commensurate with increased productivity.

Direct Taxes

64. As per the Ministry the Restructuring of the Income Tax Department resulted in increase in the manpower in the executive cadre from the level of the Chief Commissioner down to the level of the Income Tax Inspector as shown in the table given below:—

Sl. No.	Name of the Post	Strength		Increase in Numbers	%age increase
		Prior to Restructuring	After Restructuring		
1.	Chief Commissioner of Income Tax	36	116	80	222.22
2.	Commissioner of Income Tax	402	698	296	73.63
3.	Addl. Commissioner of Income Tax	339	469	130	72.28
4.	Joint Commissioner of Income Tax	453	647	194	38.34
5.	Deputy Commissioner of Income Tax	1033	1240	207	20.03
6.	Assistant Commissioner of Income Tax	648	734	86	13.27
7.	Income Tax Officer	3261	4204	943	28.91
8.	Income Tax Inspector	8106	9490	1384	17.07
Total		14,317	17,598	3,281	22.91

65. Responding to a point raised by the Committee about the performance benchmarks and extent of achievement of such targets, the Government in their written reply stated:—

“The following performance benchmarks (tangible objectives) were envisioned in restructuring proposal:

- Rs. 2,800 crore of additional revenue to be generated through enhanced ability to deal with stop-filers.
- Rs. 6,000 crore of additional revenue to be mobilized through expeditious disposal of assessments.

- Rs. 7,500 crore of revenue to be realized as a result of increase in the number of Commissioners (Appeals) and Tax Recovery Officers.
- 200% increase in productivity at the organizational level.
- Downsizing of the size of the Income Tax Department by 4.75%.
- Release of Rs. 300 crore per annum on account of reduced claim of interest on refunds.

66. However, the Ministry contended:

“It is not feasible to measure the extent of the targets achieved in respect of various performance benchmarks for the reason that any growth and progress in an organization is a result of an intricate inter-play of several factors and it is not feasible to ascertain the disaggregated effect of each such factor. However, the growth of revenue and increase in the productivity of the Department has been more than benchmarks indicated in the restructuring proposal.

The progress made by the Income Tax Department towards the achievement of the defined objectives can be evaluated on the basis of various concrete parameters including growth rate of tax collections, quantum of recovery from arrears, tax GDP ratio, cost of collection etc. Judging by these parameters, the following has been the extent of progress made since the restructuring of the Department in 2001-02:

- (a) There has been an increase of 92% in the collection of direct taxes from 2001-02 to 2004-05 at an average annual growth of 24% as against average growth rate of 18% between 1990-91 to 2000-01. It has happened for the first time in last 35 years that direct tax collections have increased at a rate above 20% for three consecutive years.
- (b) The direct tax-GDP ratio has increased from 3.02% in 2001-02 to 4.24% in 2004-05 (three years' time) as compared to increase from 2.10% in 1990-91 to 3.23% in 2000-01 (in 11 years). This is for the first time in last 35 years that direct tax GDP ratio has surpassed 4%.
- (c) There has been a significant increase in the amount of recovery from arrears from Rs. 3,930 crore in 2001-02 to Rs. 5,470 crore, Rs. 5,540 crore and Rs. 7,084 crore in 2002-03, 2003-04 and 2004-05, respectively. During 2005-06, an amount of Rs. 5,996 crore has been recovered from arrears up to February 2006.

- (d) Collection out of current demand, which was Rs. 4,326 crore in 2001-02 has increased to Rs.7,300 in 2002-03, Rs. 10,610 in 2003-04 and Rs. 15,632 crore in 2004-05. During 2005-06, an amount of Rs. 6,911 crore has been recovered from current demand up to February 2006.
- (e) The cost of collection of direct taxes has drastically come down from 1.44 paise per rupee collected in 2001-02 to 0.86 paise per rupee collected in 2004-05.
- (f) Comprehensive computerization of the Income Tax Department has been undertaken with a view to facilitating electronic delivery of taxpayers services, augmenting Departmental computer infrastructure, and setting up of Tax Information Network (TIN). The Income Tax Department has recently received "The Golden Icon" for best e-delivery of services by any Government Department or Public Sector Undertaking.
- (g) There has also been progress in various areas including taxpayers service, level of use of technology in work, higher morale of the work-force, development of core-competence, etc, which have directly or indirectly resulted from restructuring of the Department."

67. When asked to furnish the details of revenue realization during the four years preceding and four years succeeding the restructuring, the Ministry provided the following information:—

Financial Year	Direct Tax Collections (Rs. in crore)
1997-98	48,280 [#]
1998-99	46,600
1999-2000	57,959
2000-01	68,305
2001-02 (Year of restructuring)	69,198
2002-03	83,088
2003-04	1,05,088
2004-05	1,32,771
2005-06 (Revised Estimates)	1,70,077

[#]Inclusive of VDIS collections of Rs. 9,803 crore.

Indirect Taxes

68. As desired by the Committee, the details regarding increase/decrease in the number of posts at all the levels (from the level of Inspector to Chief Commissioner) due to restructuring of the department were furnished as follows:—

Grade	Sanctioned Strength		
	Before Cadre Restructuring	After Cadre Restructuring	% increase/decrease
Chief Commissioner	21	47	123.80%
Commissioner	146	289	97.90%
Additional Commissioner	194	300	54.60%
Joint Commissioner	96	276	187.50%
Deputy Commissioner	808	601	(-) 25.62%
Assistant Commissioner	453	790	74.40%
Supdt. of Central Excise	6158	10515	70.80%
Supdt. of Customs (Prev.)	1021	1442	41.20%
Appraiser	722	809	12%
Inspector CE	18472	15826	(-) 14.32%
Examiner	456	376	(-) 17.54%
Preventive Officer	2294	1851	(-) 19.31%
CAO	41	155	278%
AO/ACAO/EA	584	972	66.40%
Sr. P.S.	21	47	123.80%
P.S.	103	290	181.60%

69. Asked to explain the performance benchmarks and the extent of their achievement, the Government, in their written reply, stated as follows:

“No specific targets or benchmarks were envisioned to be achieved due to restructuring of the department. Cadre Restructuring Plan 2001 basically aimed at creation of a tax administration, which is officer-oriented, assessee-friendly and positively responsive. The Cabinet Note for the Cadre Restructuring Plan 2001, presented before the Union Cabinet, envisaged the following broad objectives:

- (i) Creation of a tax administration, which is officer-oriented, technology-driven, positively responsive and assessee-friendly.

- (ii) Maximization of revenue productivity by having closer supervision over compact Commissionerates and Zones. Creation of smaller and compact Commissionerates & Zones will also provide better accessibility to trade and industry and rationalize the workload;
- (iii) Reinforcement of the Directorate of Anti-evasion and Revenue Intelligence to counter increased skills and capabilities of tax evasion and smuggling;
- (iv) Speeding up the process of disposal of Appellate cases pending at various levels, thereby unlocking nearly Rs. 11,000 crore;
- (v) Reorganizing Training Directorate to achieve the required level of capacity development, and reinforcement of the Directorates of Audit, Valuation, Drawback & Export Promotion, Systems etc. for increased efficiency in various areas of work;
- (vi) Achieving faster speed in decision-making by replacing manual processing of documents by greater use of computers and other tools of Information Technology;
- (vii) Reducing interface with the taxpayer especially at the lower level of staff by having more number of senior level officers in the field formations;
- (viii) Achieving the objective of zero-tolerance to corruption by strengthening the Vigilance Directorate and the grievance-redressal machinery;
- (ix) Downsizing of the Department by rationalizing various formations, grades and cadres into simpler and uniform structure by a reduction of staff strength from 68,761 to 65,161 (net reduction of 3600 posts, that is, 5.24% of the total staff strength);
- (x) Higher motivation through improved management of career prospects in all cadres of Group 'A', 'B', 'C' & 'D'.

70. It was further informed:

“Cadre restructuring also envisaged enhancement of productivity of the Department to achieve an estimated 5% per annum growth in revenue collection.

After implementation of the Cadre Restructuring Plan, the revenue realization has improved over the years despite reduction in duty

rates, removal of physical controls and various liberalization measures taken by the Government. Following Table indicates the growth of revenue since the year 2000-01:

(Rs. in crore)

Financial Year	Actual Collections				% growth over previous year
	Customs	Central Excise	Service Tax	Total	
2000-01	47542	68526	2613	118681	-
2001-02	40268	72555	3302	116125	-2.2
2003-04	48629	90774	7891	147294	12.2
2004-05	57611	99125	14200	170936	16.1
2005-06 (BE)	53182	121533	17500	192215	12.4

The above table indicates that the indirect tax revenue (Customs, Central Excise and Service Tax taken together) has grown by 12.2% and 16.1% during 2003-04 and 2004-05 respectively. The BE for the year 2005-06 envisages a growth of 12.4%, which is likely to be achieved.

As regards disposal of appeals cases, approximately 38,000 appeals cases were pending disposal in 2001. Most of these cases have been decided and as on 31.3.2005 there were only 8830 cases pending disposal. Most of these cases are new cases. As a result of declining pendency of Appeals cases, the Department could convert about 30 posts of Commissioner (Appeals) into other Commissioners posts.

The above factors indicate that the objectives of the Cadre Restructuring have been met."

71. Revenue collected from Indirect taxes over the years is as follows:—

Year	Revenue realised (in Rs. crore)				
	Customs	Excise	Service Tax	FTT/IATT	Total
1991-92	22257	28110	—	522	50889
1992-93	23776	30832	—	382	54990
1993-94	22193	31697	—	354	54244
1994-95	26789	37347	407	584	65127
1995-96	35757	40187	862	609	77415
1996-97	42851	45008	1059	675	89593
1997-98	40193	47962	1586	892	90633
1998-99	40668	53246	1957	1009	96880
1999-00	48420	61902	2128	982	113432
2000-01	47542	68526	2613	1133	119814
2001-02	40268	72555	3302	1193	117318

Shortage of Manpower

72. During the oral evidence the Committee referred to the fact that at almost every discussion involving Department of Revenue during their on-the-spot visits, the point regarding shortage of manpower and its effect on the efficient functioning of tax departments has always been raised. In this connection, the Secretary (Revenue) stated the following:

“We do believe that this is a serious problem which we need to address, particularly during the last few years our revenue collection has gone up enormously. It is almost doubled over the past five or six years and the number of taxpayers has increased. Our ability to look at the kind of returns that they are getting, the responsibility has increased. In fact, we are having a serious problem. The main difficulty that has arisen is that according to the DoPT norms, we have to bring down the total number, the total manpower by given percentage every year. So this has been affecting us for the last five or six years. We have not been recruiting effectively at the grass root level. I do not think that we can really progress much in this because ultimately whatever potential is there for collection has not been fully realised because of lack of manpower. So, we had taken up with the Cabinet the question of exempting us from this DoPT norm. The Cabinet referred it to the Committee of Secretaries. We had a meeting of the Committee of Secretaries. Two things were decided there that immediately for the CBEC, 1,400 new posts could be filled up. That can be immediately done and for the CBDT, 3,300 posts can be filled up. That will be basically at the lower level which you were referring to so that that problem to a certain extent can be sorted out. But it was also decided that both the Departments may work out their own what they consider to be the kind of structure that is required for maximum revenue collection and then it can be brought again to the Committee of Secretaries for a decision. Two or three weeks ago, we received a proposal from the CBEC which was considered by the Finance Secretary, myself and the Secretary DoPT. Certain queries were raised by Expenditure and DoPT and we now propose to hold a further meeting. Thereafter, we will collectively take it to the Committee of Secretaries and based on the decision taken by the Committee of Secretaries, it will go to the Cabinet. A similar exercise has been undertaken by the CBDT. They have just submitted their proposal. I think day after tomorrow; we are having a meeting with the Finance Secretary and the Secretary of DoPT where we will be looking at the structure. Meanwhile an action has already been initiated to fill these 1,400 posts in CBEC and 3,300 posts in the CBDT. Of course, we have to depend on the Staff Selection (SSC). I have written to the SSC Chairman requesting him to expedite the selections so that these people are in places as quickly as possible. But it is a problem and we are very conscious of it.”

73. To the specific point raised by the Committee during the oral evidence as to whether the Government have done anything to expedite the process of recruiting the sanctioned staff, the Chairperson of the Central Board of Direct Taxes stated as under:

“The posts on the CBDT side which have been sanctioned, as the Secretary just mentioned, are the ministerial staff level and they are all to be done by direct recruitment for which the SSC comes into the picture. They do this selection for us and they do the recruitment for us and then give us the manpower. So, that is likely to take a year’s time.”

74. Further raising the point the Committee during the oral evidence wanted to know whether the Government have taken up the issue with the recruiting agency to expedite the process of recruiting the staff, the Revenue Secretary stated the following:

“I have already done so in the case of CBEC. There has been a little bit of delay in submission of the proposals from the CBDT which we have corrected now. I will be writing to the SSC about the CBDT also.”

75. The Committee observe that restructuring of the department under the Central Board of Direct Taxes (CBDT) and Central Board of Excise & Customs (CBEC) had been undertaken resulting in perceptible difference in the performance of the departments. However, the Committee have been told on many occasions that shortage of manpower, particularly at the level of Inspectors etc is affecting the efficiency of the tax departments. In this regard, from the data submitted to them by the Government, the Committee note that the restructuring process in CBDT has resulted in an increase of 222.22% of the posts of Chief Commissioner but a rather poor 17.07% augmentation at the level of inspectors. In CBEC, the posts of Chief Commissioner have been increased by 123.80% and at the level of Inspector, there has been a decrease of 14.32%. This exercise, in the Committee’s view, has made the top slots heavy, and negligible or even negative growth in the number of posts at the cutting edge levels like that of Inspectors, Income Tax Officers, Superintendents and Custom Appraisers. This, the Committee feel, may further worsen the much-felt shortage of work force at these levels leading to serious problems in the overall functioning of the two departments. The Committee note that the Government have now started taking measures to fill up these gaps. Nevertheless, the Committee are led to the conclusion that the restructuring proposal was done in a manner, that chose to ignore the requirements at the middle and lower level of the functionaries, resulting in continuation of shortage of manpower. The Committee, therefore, recommend the Government to again assess the present structure of the department under both the Boards carefully and set right the anomalies that have crept up as a result of restructuring.